



Department for
Science, Innovation
& Technology



HM Treasury

Government Response: Independent Review of University Spin-outs

November 2023



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Foreword

The UK can be proud that it is home to four of the world's top ten universities. Our universities have been the foundations for some of the UK's leading technology-based companies, such as Oxford Nanopore and Exscientia. These in turn have resulted in the UK having Europe's only technology sector worth over one trillion pounds.

Through our Science and Technology Framework, we set out our plan to make the UK a science and technology superpower, not just leading university rankings but translating that research to improve economic growth, security and health. The Prime Minister has negotiated excellent terms for the UK to associate to Horizon Europe and Copernicus, getting great value for taxpayers while maximising opportunities for researchers. The government is also delivering an unprecedented increase in funding for R&D, with total government R&D funding rising to £20bn by 24/25, an increase of around a third since 21/22. By the end of the current Spending Review, UK Research and Innovation's annual budget will have increased by 31% since its creation, reaching £8.9bn in 2024/25. This funding will continue to underpin UK universities' strengths, including in spinning out successful business ventures.

Investment in UK spin-outs has increased rapidly over the last decade, increasing from £1.1 billion in 2014 to £5.3 billion in 2021. However, we want to do even more to translate the UK's academic excellence into new high-growth companies so that we grow the economy and create more well-paid jobs across the UK. Founders and investors raised concerns that some practices were making the spin-out process unnecessarily difficult, and that is why we commissioned this review.

The review sheds new light on how to further unlock the potential of UK universities, demonstrating that they perform well overall, but that there is inconsistency in the application of best practice that if corrected could accelerate the success of spin-outs further.

We therefore welcome the recommendations of the review and are pleased to be able to accept them all. We are working up proposals to support them and are providing a new £20 million proof-of-concept fund to support universities and future founders to de-risk technology.

We would particularly like to celebrate those universities who have been leading the way in developing spin-out ecosystems in the UK. Several of the UK's leading universities have already indicated their endorsement of the recommendations of the review. We urge the whole university sector to follow their example and adopt the best practices identified by the review.

We would like to thank Professor Irene Tracey and Doctor Andrew Williamson for their time and efforts leading this review. Their work will play a critical role in helping the UK secure our science and technology ambitions.

Jeremy Hunt

Chancellor of the Exchequer

Michelle Donelan

**Secretary of State for Science,
Innovation & Technology**

Executive summary

The government accepts **all** the recommendations made by the independent review. Set out below are the actions government will take in collaboration with stakeholders to deliver them. Each chapter covers the recommendations, actions and expected impacts in more detail.

1. The spin-out process

Government will work with universities to improve deal terms, data and transparency in the sector. This includes reporting on which universities have implemented the policies recommended by the review, creating a database of spin-out companies and supporting the sector to develop a full set of deal terms guidance for different sectors, including template term sheets. This will lead to deals being done faster on terms that do not hold spin-outs back from securing investment.

2. Financing university technology transfer and proof-of-concept research

We are providing £20 million for a new cross-disciplinary proof-of-concept research programme. Research England will review the Higher Education Innovation Fund (HEIF) to ensure commercialisation functions in universities are appropriately funded and incentivised. We will set up a pilot of shared technology transfer functions for universities. This will ensure that universities are not penalized for promoting spin-out creation and will mean companies do not spin-out too early due to lack of research funding.

3. Building spin-outs into viable ventures

Government will map and publish support services available to founders and develop proposals to fill gaps or improve support. UK Research and Innovation (UKRI) will ensure that all PhD students it funds have the option to attend high quality entrepreneurship training and increased opportunities to undertake internships in local spin-outs, venture capital firms or technology transfer offices. This will improve the quality of support and enable founders to receive the right support at the right time and help create the next generation of founders.

4. Equity investment and the role of investors

Government will continue its work to support access to finance through the Long-term Investment for Technology and Science (LIFTS) scheme, establishing a new Growth Fund within the British Business Bank, delivering a new generation of British Business Bank Nations and Regions Investment Funds and extending British Patient Capital to 2033-34 with £3 billion of funding. The government will also continue to deliver the Mansion House reforms, including improvements to our capital markets. Together, this will improve the ability of R&D-intensive start-ups across the UK to receive investment to start and to scale, helping to develop and grow the UK's clusters of R&D excellence.

5. Porosity between academia and spin-outs

To support our ambition to make the UK's Research, Development and Innovation landscape more open and navigable, the government will work with UKRI and the National Academies to develop opportunities to improve their fellowship offer for commercialisation, including the option of 'academic returner' fellows. This will make it easier to move between academia and industry and develop career opportunities for academics who become founders.

1. The spin-out process

Summary of Review recommendations on the spin-out process

Recommendation 1: Accelerate towards innovation-friendly university policies that all parties, including investors, should adhere to where they are underpinned by guidance co-developed between investors, founders, and universities.

- All parties should agree spin-out deals on market terms, avoiding unnecessary negotiations. Equity splits identified via TenU's University Spin-out Investment Terms (USIT) Guide can be used as a starting point for life sciences spin-outs (10-25% university equity) with exact terms varying depending on the wider commercial deal.
- Universities, investors, and founders to jointly develop guidance for (i) software spin-outs, where there is typically less university support and IP can be more straightforward to work around, and (ii) hardware and engineering spin-outs, which typically sit somewhere between software and life sciences. For less IP-intensive deals, common in software-only spin-outs, typical deal terms should be much lower, with university equity of 10% or less.
- Universities, investors and founders to jointly build on the USIT guidance to develop a template for spin-out term sheets, similar to the US University Startup Basic Outlicensing Template (US-BOLT) to help streamline the negotiations process.
- Universities should have clearly stated expectations on time to complete the stages of the spin-out process by both the university and founders. University approvals needed for a standard spin-out should be delegated to trusted individuals and not taken by committees that meet infrequently.
- Founders should be encouraged to adopt amongst themselves proportionate equity distribution that both recognises the contributions to originating IP and continued intellectual support, but also the need to reward and incentivise those individuals who will commit considerable effort in taking the company forward.

Recommendation 2: More data and transparency on spin-outs through a national register of spin-outs, and universities publishing more information about their typical deal terms. The Higher Education Statistics Agency's ongoing review of the Higher Education Business & Community Interaction (HE-BCI) dataset must present solutions to improve the reliability of data on spin-outs.

Government **accepts** the recommendations on improving the spin-out process. The spin-out process refers to the administrative steps that must be gone through to establish a spin-out company, including securing intellectual property (IP), negotiating equity and IP licensing, and navigating conflicts of interest. The review found that challenges with negotiating deals

acceptable to all parties is in some instances delaying spin-out formation and affecting fundraising. Our actions focus on speeding up the process and improving deal terms.

Summary of actions to improve the spin-out process

Actions	Impact
Government will work with universities with the goal of all universities adopting best practice policies for spin-out deal terms and related issues. Progress towards this goal will be monitored through Research England reporting.	Founders will benefit from better deal terms on equity and royalties, making it easier to attract investment in future rounds.
To simplify the spin-out process, TenU, a collaboration of university technology transfer offices, will build on their existing deal terms guidance with one for software. TenU is funded by government via Research England. Following the software guidance, TenU will also create a draft term-sheet to simplify negotiations.	Founders, investors and universities will benefit from faster spin-out processes and negotiations. Spin-outs will be less likely to try and re-negotiate terms after agreement.
Research England and the Higher Education Statistics Agency will collaborate to produce better data on spin-outs, including a database of all spin-outs.	Founders and universities will benefit from more information on performance, practices and trends across the HE sector, making benchmarking easier.

Improving terms and adopting best practices

Better deal terms will make the spin-out process faster and less contentious and make it easier for spin-outs to raise capital from a wider pool of investors.

Government has increased funding through the Higher Education Innovation Fund (HEIF) to £280 million in this spending period, up from £160 million in 2016/17. This increase has been designed to meet costs of commercialisation, and so it is important that we understand the progress of universities towards improving the terms they offer to founders.

Some UK universities have already adopted policies within what the review recommends such as lower equity stakes and transparent deal terms, demonstrating that the legal and funding regime is not a barrier to achieving this. Several leading UK universities have already indicated their endorsement of the relevant recommendations from the review.

Over time the rest of the university sector may converge on this practice, but the government believes faster progress is needed. By the end of 2024, the government would like all research-intensive universities to have agreed to adopt these policies and published updated policies where relevant.

To monitor progress towards this, we will seek to record whether universities adopt the review's policies and associated policy changes through Research England who will publish a

list of universities who have indicated their adoption of the recommendations alongside HEIF accountability statements. This is in line with our priority for Research England to advance best practice in commercialisation. We will run a pilot round in 2024 and then embed this approach in the next iteration of full accountability statements in 2025.

If voluntary adoption of the review's recommendations does not happen at scale, the government will explore routes to further incentivise universities to adopt best practice.

Simplifying the spin-out process

The review confirmed that the spin-out process can take an overly long time. The review concluded that there were many reasons for this, making simple solutions impractical.

Universities adopting the recommendations of the review should drive simplification of the process. To improve transparency on timings for founders, universities can set out internal targets for the time of different stages of the process, including the expectation on founders for response times. Improving deal terms should remove lengthy negotiations, where that is holding up the deal. Setting clear expectations will also help universities understand the drivers behind the length of the process and be better able to identify how to improve the speed of different steps.

Government is pleased that TenU have agreed to produce a supplement to their existing University Spin-out Investment Terms (USIT) guide focusing on software spin-out companies. Leading software investors including Balderton Capital and LocalGlobe have agreed to participate in shaping it. Software spin-outs are becoming more common, but the market dynamics, importance of IP and capital intensity of software companies can differ from more traditional spin-out sectors such as pharmaceuticals. The adoption of new guidance aimed at software will lead to fairer deals for software spin-outs that are less likely to cause problems with investors.

Government will work with TenU and PraxisAuril, the professional body of technology transfer, to develop and embed further guidance over the coming year, including a template term-sheet. As the review notes, hardware and engineering spin-outs will typically sit somewhere between the most IP-intensive life sciences and the least IP-intensive software deals, in terms of the contribution of IP to the value of the whole business. Following the publication of software guidance, and the outcome of universities reviewing their policies, we will decide whether separate guidance on engineering and hardware deals is needed.

Producing better data on spin-outs

The debate around university spin-out deal terms and licensing processes has been held back by limited and outdated data. Better data will enable policy discussions to be based on evidence, and for the impacts of different university and government policies to be evaluated more effectively. Better data on the performance of universities will also support academics who may become founders to make career choices.

It is important that official statistics on spin-outs collected by the Higher Education Statistics Agency (HESA) are complete, robust and reliable and can form the basis for evidenced discussion, including explicable comparisons with other data sources.

Work is already underway through Research England's development of a knowledge exchange metrics centre, linked with HESA's ongoing review of the HE Business and Community Interaction (HEBCI) data set, to improve data for funding and good practice in the higher education sector. We will improve this data and build a national database of spin-out companies, which could also potentially be used in allocating HEIF and underpinning the Knowledge Exchange Framework. Research England/HESA will achieve this by requesting the Companies House registration numbers of universities' spin-outs in their annual return to HESA's Higher Education Business & Community Interaction survey. HESA are aiming to consult the sector in Spring 2024 on the new data needed for the national register, including on publication of data to improve resources for evidence and analysis overall. In parallel, the metrics centre is developing proposals on how data can be collected in a low burden manner from 2024 as well as on how data can be used appropriately to provide better evidence for policy and practice. This will also enable a range of evidence work including cross-referencing with other datasets.

Data can also be improved through greater transparency from universities on their policies. Some universities clearly publish deal-terms, whilst others do not even publish an IP policy. Government is also asking for universities to clearly publish their policies on their public website. This will improve information for academics who may become founders who want to know the policies of different universities as they make decisions about their career.

2. Financing university technology transfer and proof-of-concept research

Summary of Review recommendations on financing universities

Recommendation 3: HEIF should be used to reduce the need for universities to cover the costs of Technology Transfer Offices (TTOs) from spin-out income. Given that HEIF equivalents are lower in the devolved administrations, the devolved governments may want to consider the findings of this review and provide additional support for their universities.

Recommendation 4: Create shared TTOs to help build scale and critical mass in the spin-out space for smaller research universities. These could be operated through collaboration with established university TTOs and could be implemented at a regional or sector-wide level. We note that the latter may be particularly of interest to spin-outs from the social sciences, humanities, and the arts.

Recommendation 5: Government should increase funding for proof-of-concept funds to develop confidence in the concept prior to spinning-out. These should integrate with the timing and offering of commercialisation support and venture-building programmes. Investors should lend their expertise to assessing funding bids for proof-of-concept and translational funds.

Recommendation 6: In developing the ‘engagement & impact’ and ‘people & culture’ elements of REF 2028, the four Higher Education Funding Bodies should ensure that the guidance and criteria strongly emphasise the importance of research commercialisation, spin-outs, and social ventures as a form of research impact. We encourage spin-outs to assist universities in drafting impact studies for REF.

Government **accepts** the recommendations on improving financing for universities. The ways in which universities fund their commercialisation activities, and the underpinning research, shapes incentives and determines which activities take priority over others. It is important that the government’s funding support for universities adequately enables and encourages universities to be supportive of spin-out companies. Our actions will ensure financial sustainability for university commercialisation and improve support for translational research.

Summary of actions to improve financing university technology transfer and proof-of-concept research

Government Actions	Impact
Research England will review HEIF to ensure that it is delivering against the government’s	Universities will benefit from greater financial sustainability investing in spin-out creation and technology transfer activities.

objectives on both commercialisation and local economic growth.	
Research England will run a pilot programme to fund proposals for developing shared TTOs.	Universities with smaller research budgets will benefit from greater access to technology transfer expertise and resources.
UKRI will deliver a new £20 million cross-disciplinary proof-of-concept funding programme.	Founders, investors and universities will benefit from greater access to proof-of-concept funding within universities. More technology development occurring before spinning out, reducing the technical risk of investments.

Higher Education Innovation Fund (HEIF)

Government agrees with the principle that universities should not need to fund TTOs from spin-out income.

Support for university commercialisation is an important public good that helps translate research into economic growth. Although taxpayers contribute significantly to university research expenditure, the economic benefits created by spin-outs should not need to be returned directly to universities or the government. Rather the public benefits of spin-outs arise indirectly through economic growth, for example via taxes paid by spin-outs and their employees.

Government provides funding to universities to perform technology transfer through Research England’s HEIF fund. In this spending period, the government has raised HEIF to its highest level ever, with £260 million for the main fund and an additional £20 million supplement for business and commercialisation. In addition, the government recently announced £60 million for a Regional Innovation Fund, a formula-funded allocation to support local economic growth including commercialisation. This provides an immediate increase in funding for this year to support university commercialisation and business engagement programmes.

In return for providing these funds, the government’s expectation is that universities negotiate reasonable deal terms with spin-outs, as outlined in the independent review.

Government will work with Research England to review HEIF to ensure that it delivers all of the government’s objectives, including improving commercialisation and using universities as engines of local economic growth. In particular, we want to increase the extent to which HEIF supports economic growth through commercialisation and business collaboration, the elements with greatest economic impact. Research England will consult the sector on changes in 2024, with the intention to introduce changes in funding from 2025.

Decisions on the equivalent funds to HEIF outside England are matters for the relevant devolved administrations.

Piloting shared TTOs

The review explains that even universities with established technology transfer teams can struggle with capacity and capability. Universities that generate spin-outs infrequently find it even harder to have expertise and a set of efficient operating processes for managing IP, conflicts of interest and other parts of the spin-out process. Government supports the recommendation to develop approaches to sharing TTOs and will initially support trials of approaches to understand effectiveness.

Research England will run a dedicated competition as part of its Connecting Capability Fund to seek and develop proposals for pilot approaches to sharing TTOs. The competition will launch in Spring 2024 with interested universities being asked to submit an expression of interest, and, with expert support, develop pilot projects. These pilots will aim to identify what works and success factors that can be embedded across the wider sector in a financially sustainable manner. Groups of universities (and other appropriate partners) will be able to set their own design parameters for sharing TTOs based on what they think will achieve the greatest impact sustainably, e.g. regional vs sector-specialist, different mixes of collaborating institutions including with those with larger TTOs or external bodies with technology transfer capabilities. In order to receive funding, participating universities will need to commit to adopting the licensing and transparency policies recommended by the independent review.

Proof-of-concept research funding

Government provides a wide variety of proof-of-concept research funding, primarily through UKRI. For example, the Medical Research Council's (MRC) new Developmental Pathway Gap Fund has awarded up to £300,000 to 18 projects. MRC received many more high-quality applications than they were able to fund, demonstrating demand for funds of this size.

The government will improve funding for proof-of-concept research. Through UKRI we will create a new £20 million, cross-disciplinary proof-of-concept fund, modelled on the recent interdisciplinary responsive mode pilot for basic and discovery research. This will be a flexible fund, and target both small scale projects of up to £50,000 and medium-to-large scale projects with costs between £100,000 and £500,000. This will help meet the demand for more commercially-focused research to explore commercial potential and prevent spinning out too early or having to abandon technologies.

Although all UKRI assessment panels allow for commercial experts as well as academics to join, they are mainly populated by academics. Translational funding assessment processes always include non-academic assessors and reviewers. Government supports the review's recommendation that for funds specifically aimed at supporting commercialisation, both scientific and commercial criteria should be assessed. Investors and businesses active in sectors related to the research are well-placed to perform commercial assessments.

We also encourage universities to partner with local investors and businesses, or their own investment boards where applicable, to bring commercial expertise into their internal assessment panels, for example in distributing Impact Acceleration Accounts.

Research Excellence Framework (REF)

The Research Excellence Framework (REF) assessment process that usually occurs every seven years leads to the allocation of approximately £2 billion per year to universities via the Higher Education funding bodies in England, Scotland, Wales and Northern Ireland. It is a key driver of behaviour within the university sector and helps ensure that the impact universities are having delivers for the UK.

In June, the four UK higher education funding bodies set out key elements of the high-level framework for REF2028. It is important that the next REF assessment, in the context of its wider objectives, also measures and incentivises the right behaviours to drive performance in both research excellence and commercialisation.

On 'engagement and impact', the funding bodies should consider how impact case study ratings can take account of wider measures such as turnover or investment. A strict metrics-based approach is unlikely to account for the complexities of different situations, however it is also counter-productive if a spin-out that generates 20 times more economic activity has the same impact case study score as a smaller spin-out.

On 'people, culture & environment', the funding bodies will need to consider how policies on recruitment, secondments & sabbaticals and intellectual property contribute to effective commercialisation of research. For example, consideration of commercialisation activity in recruitment and promotion, and flexibility on working with industry. This should incentivise universities to not just pursue publications as the main success criteria for promotion, but also consider the wider impact of research.

3. Building spin-out ideas into viable ventures

Summary of Review recommendations on building spin-out ideas into viable ventures

Recommendation 7: Founders need access to support from individuals and organisations with experience of operating successful high-tech start-ups, regardless of the region founders are based in or sector they operate in. The existing landscape of support services needs both consolidation and targeted expansion to ensure that founders have access to:

- Advice, support, or representation in negotiations with universities and investors.
- Training on entrepreneurship and commercialisation.
- Support for business building activities: provide support to identify the commercial proposition of spin-outs, build a business case, access customers, help connect investors with spin-outs, and help identify experienced and diverse people to join as early employees, advisors, and board members.
- Access to part-time or on-call professional support in law, finance, or operations in early stages before permanent hires are needed.
- Access to shared equipment and facilities for rent.

Recommendation 8: UK Research and Innovation (UKRI) should ensure that all doctoral students they fund have a voluntary option of attending high-quality entrepreneurship training and increase the opportunities for them to undertake internships in local spin-outs, venture capital firms or TTOs.

Government **accepts** the recommendations on building spin-out ideas into viable ventures. Different mindsets, strategies and networks are needed to build a company compared to performing research. Most researchers need a network of support to help them develop these capabilities and turn their technology or idea into a business with customers, develop a business plan and build a team. Our actions will help ensure all founders can access high-quality support. This will complement our wider ambition, as set out in our response to the Independent Review of the UK's Research, Development and Innovation Organisational Landscape, to ensure that the landscape is resilient by making it more open and navigable. This will encourage greater movement of people, ideas, and technology both within the landscape and in wider society, including through the creation of new spin-outs.

Summary of actions to build spin-out ideas into viable ventures

Government Actions	Impact
<p>Government will map the existing landscape of support for deep-tech start-up founders. We will then connect innovators to support through partnerships and Innovate UK's 'inclusive, digital services' to build an innovator-friendly support ecosystem.</p> <p>Following this mapping, we will ensure existing public support is easier to find and we will develop proposals to fill gaps in support.</p>	<p>Founders will benefit from having easier access to available support. Support will be more joined-up, easier to access and more consistently high-quality.</p>
<p>UKRI will ensure that all PhD students it funds have the option to attend high quality entrepreneurship training and increased opportunities to undertake internships in local spin-outs, venture capital firms or TTOs.</p>	<p>Doctoral students will benefit from gaining more experience of entrepreneurship as a career path, and so will have the tools and encouragement to develop spin-outs or bridge the gap between academia and industry.</p>

Improving the landscape of support for deep-tech start-up founders

Government already provides a funding for various schemes to support founders' commercial skills. These include Innovate UK's Innovation-to-Commercialisation of University Research (ICURe) programme focused on market and customer research, a recent MRC-Innovate UK fund for health and life sciences accelerator programmes, and Research England's Connecting Capability Fund which has funded a range of projects supporting sectors and regions with commercialisation.

In addition to this, the review identifies a growing body of private sector programmes supporting deep-tech start-ups, especially around the Greater South-East. Whilst support within universities is important, it is the government's view that where private providers can offer support, they are typically better placed to do so.

We will work with Innovate UK to map the existing landscape of support, both public and private. We will look at availability by region, the types of support offered, sectors supported and what public, private and philanthropic funding is available. We will advertise a list of providers on Innovate UK's inclusive, digital services¹ to make it easier for founders to identify support available.

Whilst completing this mapping exercise, we will engage with partners such as Catapults, UKRI institutes, and investors to determine the factors necessary for an effective spin-out

¹ For example the Innovation Hub: <https://ukinnovationhub.ukri.org/ukri.org>

ecosystem. Using outputs from the mapping exercise, we will develop proposals to fill any gaps in support and better coordinate existing public funding.

Training opportunities for PhD students

Many spin-outs and deep-tech start-ups are founded by PhD students following their studies. Commercialisation is also becoming a more important part of an academic career for those who pursue it following their PhD. Over 60% of postgraduate students don't enter a job in the higher education sector after graduating.² It is therefore important that during their training, researchers can receive training in commercialisation and entrepreneurship.

Government wants the UK's Research, Development and Innovation ecosystem to be as open as possible, encouraging the movement of people and ideas within it and into wider society. PhD students should be able to gain experience in commercial roles whilst doing their PhD, to help open alternative careers, or support them as future academics to understand commercial sectors. Studentships should have the flexibility that, where desired, students can spend a short secondment gaining work experience in commercial areas.

UKRI, through its Collective Talent Funding, is developing its core offer for all future training grants which will more clearly set out our expectations for professional and career development. This will include the option for entrepreneurship training. UKRI will also explore opportunities to increase the availability of this financial support for doctoral students to undertake internships to increase their commercial skills and networks.

² Longitudinal Education Outcomes survey 2023

4. Equity investment and the role of investors

Recommendations on equity investment and the role of investors

Recommendation 9: Recognising the important role that university-affiliated funds have played in helping spin-outs from some regions access finance, universities considering working with new affiliated investment funds should continue to ensure they are still able to attract a wider set of investors and encourage competition when agreeing such deals.

Recommendation 10: We welcome ongoing reforms to support scale-up capital, such as changes to pensions regulation and encourage the government to accelerate these efforts. Government should continue its reforms to ensure that UK capital markets are able to provide the financing to incentivise companies to stay in the UK.

Government **accepts** the recommendations on equity investment and the role of investors. Financial support in the form of equity investment is often critical to enable spin-out companies to successfully commercialise the innovative IP that is created in universities. The review acknowledges that there has been an impressive increase in levels of UK university spin-out investment from £1.1 billion in 2014 to £5.3 billion in 2021. It also notes, however, that there appear to be geographical differences in spin-outs' ability to access early-stage finance.

Summary of actions to improve equity investment in spin-outs

Government Actions	Impact
Government will continue to support early-stage businesses, particularly closing the regional funding gap through a new generation of Nations and Regions Investment Funds delivered by the British Business Bank	Founders will benefit from improved access to finance for start-ups throughout the UK and a reduction in regional imbalances in equity funding. This will support the development of the UK's clusters of R&D excellence by supporting spin-out firm to flourish within them.
Government has extended British Patient Capital to 2033-34, providing an additional £3 billion in equity funding and British Patient Capital will include additional wording in its Request for Proposals to ensure that it is focused on funding R&D-intensive companies	Founders and investors will benefit from an increase in capital available for Venture Capital (VC) funds looking to invest in R&D-intensive companies. This will improve funding conditions for R&D companies looking to grow and scale.
Subject to final agreement, the government will commit £250m to two successful bidders under the LIFTS initiative. This will create new investment vehicles tailored to the needs of	Founders and investors will benefit from improved access to capital for high-growth companies from UK Defined Contribution pension schemes.

<p>pension schemes, seeking to generate over £1 billion pounds of investment to support the UK's most promising science and technology businesses.</p>	
<p>Government is legislating to extend the sunset clause for the Enterprise Investment Scheme and the Venture Capital Trust scheme to 6 April 2035.</p>	<p>Founders and investors will benefit from the continued support of these schemes which provide generous tax reliefs to incentivise investment in early-stage companies, helping them to raise the financing they need to grow and succeed.</p>

Closing the regional funding gap

Government agrees with the review's conclusion that university-affiliated investment funds have played an important role in enabling spin-outs from some regions in the UK access the finance they need to grow. The government also agrees with the objectives of creating a fair and competitive investment environment.

Government recognises there is an imbalance in the number and value of equity deals in London compared to the rest of the UK and that spin-out investment is concentrated in the Golden Triangle. Unlocking investment across the UK will be key to growing the UK's clusters of R&D and innovation excellence by creating an investment environment that will allow spin-outs to flourish around key anchor institutions within these clusters.

The British Business Bank (BBB) is committed to breaking down barriers to finance so that access to finance is a level playing field for all entrepreneurs wherever they are. Through its Nations and Regions Investment Funds and Regional Angels programmes, the BBB works with local fund managers and business angels to reduce regional imbalances in the availability of finance. To date, the BBB's Nations and Regions Investment Funds have invested over £660m, leveraging an additional £1 billion in private sector funds to support over 1,800 SMEs. The Regional Angels Programme has deployed over £65m into over 370 businesses across the UK, covering all 12 regions, including devolved nations.

At Spending Review 2021, the government announced £1.6 billion in funding for a new generation of the BBB's Nations and Regions Investment Funds, including new funds in Scotland (£150 million) and Wales (£130 million) and to build on its existing programmes in Northern Ireland (£70 million), working closely with the devolved administrations. The South-West investment fund (£200 million) was launched in July 2023. The next generation of the Northern Powerhouse Investment Fund (£660 million) – including its expansion to the North-West – and the Midlands Engine Investment Fund (£400 million) will launch in 2024.

Extending British Patient Capital

At Spring Budget 2023, the government extended British Patient Capital to 2033-34, which will provide at least £3 billion of additional equity funding for UK's key high-growth sectors

including life sciences, green industries and deep tech, including into spin-outs. Currently, 11% of British Patient Capital -backed companies are academic spin-outs compared to just 2% of all equity-backed companies.

As part of the extension of British Patient Capital, the BBB will increase its focus on R&D-intensive businesses via a change to the programme's Request for Proposals. We expect this change to further increase the proportion of spin-outs receiving British Patient Capital funding.

The government wants to ensure that savers can benefit from the growth of the UK's most innovative companies. We will work closely with industry and regulators to mobilise more investment into high-growth sectors.

Mansion House Reforms

At Mansion House in July, the Chancellor presented a series of reforms to improve savers outcomes and investment and boost growth in the UK's high-growth companies and capital markets. These reforms will help unlock an additional £75 billion of financing for growth by 2030 and improve the availability of financing for scale up companies.

Specific reforms included the announcement of an industry-led 'Mansion House Compact' through which many of our largest DC providers have committed to the objective of allocating at least 5% of their default funds to unlisted equities by 2030; the publication of the Long-term Investment for Technology & Science (LIFTS) call for proposals; and work to explore demand for government to play a greater role in establishing investment vehicles, building on the skills and expertise of the BBB.

Long-term Investment for Technology & Science (LIFTS) and Growth Fund

The Long-term Investment for Technology & Science (LIFTS) competition is designed to support new funds or investment vehicles that will crowd-in investment from large UK institutional investors, particularly Defined Contribution pension schemes, into UK science and technology firms. It aims to address a longstanding policy problem, namely the historically low levels of capital allocation from these institutions into VC assets. Addressing this should in turn help reduce a long-standing scale-up finance gap facing UK R&D-intensive firms while ensuring UK pension savers stand to benefit from the growth of the UK's most innovative companies.

At Autumn Statement, the government announced that it will commit £250 million to two successful bidders in the LIFTS initiative, subject to final agreement. This will create new investment vehicles tailored to the needs of pension funds, generating over £1 billion pounds of investment from pension funds and other sources into UK science and technology companies.

To complement private investment vehicles, the government also announced at Autumn Statement that it will seek to establish a new Growth Fund within the BBB. The Growth Fund will draw on the BBB's strong track record and a permanent capital base of over £7 billion to give pension schemes access to opportunities in the UK's most promising businesses. This

has been welcomed by 8 pension schemes and fund managers as a potentially valuable addition to the market.

Improving our capital markets

The UK's vibrant and dynamic capital markets remain some of the strongest and deepest globally, delivering capital to support high growth and innovative businesses around the world. Government is committed to building on these strong foundations to make the UK the global capital for capital.

Government is taking forward the key recommendation in the Lord Hill Listing Review and overhauling the UK's Prospectus Regime, which was inherited from the EU. The new regime will be simpler, more agile, and more effective and allow the FCA to set more tailored requirements.

At Mansion House, the Chancellor set an ambitious timeline of having the Intermittent Trading Venue up and running by the end of 2024. The Intermittent Trading Venue will be a new type of venue which will allow the trading of private companies' shares through auctions held on an intermittent basis. This will improve private companies' access to capital markets, helping them to scale-up as they progress to becoming a publicly listed company.

This is in addition to the changes already completed by the Financial Conduct Authority (FCA) rule changes on free-float requirements, Dual Class Share Structures and Special Purpose Acquisition Companies, which allow company owners to retain more control of their business when they go public.

5. Porosity between academia and spin-outs

Recommendations on movement between academia and spin-outs

Recommendation 11: Government should improve the provision of funds to enable movement or porosity between academia and industry, including through:

- Funds that ‘buy out’ academic time to focus on commercial partnerships and potential ventures. Or adapting funds for industry collaboration to be more accessible to spin-out founders.
- An ‘academic returner’ fellowship for researchers wishing to return to academia from the private sector.

Government **accepts** the recommendation on movement between academia and spin-outs. Researchers need flexibility to have a career that spans academia and industry, including spin-out companies. Our actions seek to improve routes to move from academia into spin-outs and back again to create career paths for entrepreneurial researchers.

Summary of actions to improve the movement between academia and spin-outs

Government Actions	Impact
Government will work with UKRI and the four National Academies to develop opportunities for uplifting and improving their fellowship offer for commercialisation, including the option of ‘academic returner’ fellows.	Founders will benefit as moving from academia into a spin-out will be a smoother transition and there will be more routes back into academia, if desired. Universities will benefit from increased diversity in professional experience amongst the academic body.

Developing the fellowship offer for commercialisation

Government already supports researchers and academics to take time out from teaching or research to focus on commercialisation activity. Government funds the four National Academies to deliver research programmes, which support commercialisation and include the Royal Academy of Engineering’s Enterprise Fellowship, the Royal Society’s Industry Fellowship and the British Academy’s Innovation Fellowship. UKRI provides funding through the Innovation Scholars programme. UKRI’s wider proof-of-concept and translational research portfolio also contributes to the objective of buying out academic time.

Government will work with the National Academies and UKRI to increase and improve these offers of support, including on offering flexibility in their eligibility and use rules for researchers at different stages in their career and commercialisation pathway. For example, the Prime Minister recently announced £150 million to establish the Green Futures Fellowship for at least 50 leading scientists and engineers to develop practical, breakthrough green technologies and climate changes solutions. The Green Future Fellowships will focus on major research and innovation challenges needed to tackle the UK's net zero 2050 goals and will incorporate support for proof-of-concept and commercialisation.

The review's founders survey reported that only 12% of spin-out founders who had left academia wanted to return. This suggests that demand for an academic returner fellowship is there, albeit on a small scale. Data is limited on academics who have spent extensive time performing industry research. As mentioned in the government's response to Paul Nurse's review of the R&D Landscape, the government will work with the sector to create the right conditions for a seamless flow of talent, ideas and technology within the RDI landscape, industry and society. As part of this, we will consider trialling an academic returner fellowship to generate evidence on whether and how such researchers differ from lifelong academics.

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