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university agenda



# SMARTER REGIONS SMARTER BRITAIN

BOOSTING REGIONAL GROWTH  
THROUGH UNIVERSITIES

Compared to our European neighbours, the UK has by far the widest output gap between its regions. Since 2008 these regional imbalances have become even more pronounced and the return to growth in the national economy has not been reflected in outcomes in the majority of regions.

These problems are deep-rooted and policies focused solely on some major cities outside of London, important though these conurbations are in driving growth, or on local initiatives are unlikely to be enough to promote the more equitable regional recovery that the country needs. We believe that Britain must be smarter in its approach to the regions and build on the potential of the regional assets and the anchor institutions that already exist.

Universities have long been recognised as key economic, social and cultural powerhouses in their localities. This report provides new analysis which highlights the value of universities and their graduates to regional economies and sets out the case for universities to be placed at the centre of strategies to boost regional growth.

Our manifesto for the regions outlines the measures that government should adopt to tackle regional variations in attainment, promote innovative partnerships and translational research, support small and large businesses and unlock talent and ambition to create a fairer as well as a smarter Britain.

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## Smarter Regions, Smarter Britain: A manifesto for regional growth

### The government should:

- Develop strategies to tackle variations in regional educational attainment and participation in higher education
- Use receipts from the sale of the student loan book to boost work-based university courses, opportunities to study part-time and to fund 50,000 additional postgraduate places linked with professional, industry and public-service based programmes
- Introduce a system of tax credits and vouchers to enable businesses to better use the talents of students and recent graduates
- Establish a new fund for translational research to be accessed by universities receiving lower levels of public research funding
- Provide all universities that have research degree awarding powers with funding for research infrastructure
- Ensure that innovation voucher and Knowledge Transfer Partnership schemes are responsive to the needs identified by small businesses in their regions, rather than centrally determined priorities
- Increase the value of the Higher Education Innovation Fund and change the criteria to ensure all universities benefit
- Create a new Small Business Agency with a regional focus that reports directly into the Department for Business, Innovation and Skills
- Use the new Business Bank to raise equity and debt finance within the regions to increase investment in university-business collaboration
- Evaluate the effectiveness of Local Enterprise Partnerships to ensure coherent coverage and activity across regions, increased university representation on LEP Boards, and promotion of university-business collaboration

## Introduction

The sharp differences in the growth and productivity of the regions across the UK have been a concern of successive governments. Research by the Centre for Cities shows that for every new private sector job created in the North and in the Midlands in the decade leading up to the financial crash of 2008, 10 were created in London and the South.<sup>1</sup> Within the European Union, the United Kingdom has by far the widest output gap between its strongest and weakest areas, equivalent to 260% of EU per capita gross domestic product.<sup>2</sup>

Figures from the Office of National Statistics (ONS) confirm that London and the South East continue to outperform all other regions in England. As Figure 1 illustrates, by 2012 only London's share of Gross Value Added (GVA)<sup>3</sup> had achieved any significant increase when compared to all other regions.

After taking office in 2010, the Coalition Government committed to rebalancing the economy. This covered at least three dimensions: rebalancing from the South to the North, rebalancing from the public to the private sector and rebalancing from financial services to advanced manufacturing.<sup>4</sup> The government's approach was outlined in the *Local growth: realising every place's potential* White Paper, which focused on England.<sup>5</sup> Regional

Development Agencies (RDAs) were abolished and 39 Local Enterprise Partnerships (LEPs) were created. A £2.6 billion Regional Growth Fund and the Single Local Growth Fund (which will be worth £2 billion per year) were established. A number of Catapult Centres have been funded and a Business Bank is to be created to deliver greater access to equity in particular for small businesses.

The National Audit Office (NAO) has raised questions about the performance of LEPs and of the Regional Growth Fund. In a report published in December 2013, the NAO suggested that the closure of the RDAs and the failure to introduce new programmes quickly enough resulted in central government spending on local economic growth falling from £1,461 million in 2010-11 to £273 million in 2012-13 (although this was estimated to rise to £1,714 million in 2014-15).<sup>6</sup> In February 2014, the NAO concluded that government departments had improved the Fund's governance but there would be 'a significant challenge, particularly in 2014-15, to spend a budget of £1.4 billion.'<sup>7</sup>

The government has now tended to focus on achieving growth in general, rather than strong concentration on the regional dimension associated with the earlier rebalancing rhetoric.<sup>8</sup> But the political and economic need for growth and job creation in the regions remains. This report focuses on the role that universities can play in creating more sustainable and equitable growth and sets out the actions government should take to boost their contribution to driving regional growth.

<sup>1</sup> <http://www.centreforcities.org/assets/files/10-06-07%20Private%20Sector%20Cities%20web.pdf>

<sup>2</sup> [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/1-21032013-AP/EN/1-21032013-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/1-21032013-AP/EN/1-21032013-AP-EN.PDF)

<sup>3</sup> Gross value added (GVA) is a measure in economics of the value of goods and services produced in an area, industry or sector of an economy. In national accounts GVA is output minus intermediate consumption.

<sup>4</sup> <https://www.gov.uk/government/speeches/transforming-the-british-economy-coalition-strategy-for-economic-growth>

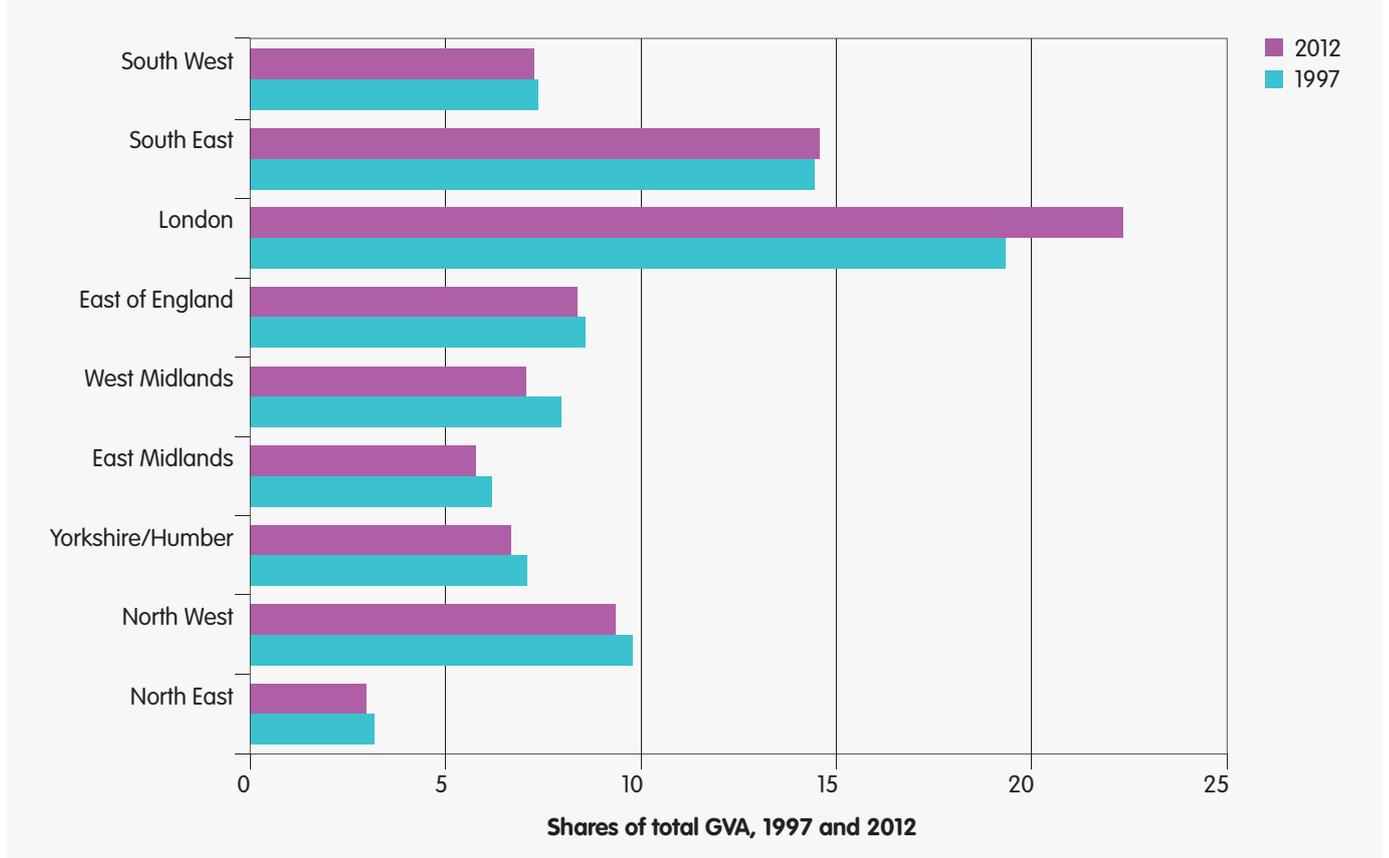
<sup>5</sup> <https://www.gov.uk/government/publications/local-growth-realising-every-places-potential-hc-7961>

<sup>6</sup> <http://www.nao.org.uk/report/funding-structures-local-economic-growth/>

<sup>7</sup> <http://www.nao.org.uk/report/progress-report-on-the-regional-growth-fund/>

<sup>8</sup> See for example <http://www.bbc.co.uk/news/uk-politics-19881293>

Figure 1: Share of GVA growth for English regions, 1997 and 2012



Source: ONS, Regional Growth Value Add (Income Approach), December 2013<sup>9</sup>

**“The political and economic need for growth and job creation in the regions remains. Universities can play a key role in creating more sustainable and equitable growth.”**

<sup>9</sup> <http://www.ons.gov.uk/ons/rel/regional-accounts/regional-gross-value-added--income-approach-/december-2013/stb-regional-gva-2012.html#tab-Regional-GVA-estimates-analysis>

## Regional economic growth: boosting the role of universities

In challenging economic times, government needs to invest in measures and assets that the regions already possess. These assets include so-called 'anchor institutions' or the buildings and institutions (whether in the public, private or not-for-profit sector) that are inextricably linked to the history and character of the places in which they are situated.<sup>10</sup>

Universities are anchor institutions par excellence. However, there is less recognition of the role and strengths of modern universities<sup>11</sup> and of the barriers that inhibit them from deepening and strengthening this anchoring role to address regional imbalances in growth.

### Graduate supply

In the last decade, the expansion of opportunities to study for a degree has been spearheaded by modern universities. These universities have also been seminal in narrowing the gap in participation between students from advantaged and disadvantaged backgrounds.<sup>12</sup> In 2012-13, modern universities taught 890,875 (49%) of all undergraduates and 209,325 (39%) of all postgraduates.<sup>13</sup>

Universities are hugely significant in creating a workforce with the attributes required by employers to drive forward their businesses. In 2012-13 alone, modern universities awarded:

- 14% of all PhDs
- 32% of all other higher degrees
- 54% of other postgraduate qualifications (excluding PGCEs)
- 52% of first degrees
- 81% of all foundation degrees
- 73% of HND and DipHE awards
- 61% of other undergraduate qualifications

All universities have international strategies and the global scale and scope of their academic research and transnational partnerships is immense, not only adding value to the UK's export earnings and global reach but also to the regions in which they are located or have campuses.

### Regional variations in participation in higher education

Despite successes in improving the participation rate over the last decade, there are stark variations in regional attainment and participation in higher education. Looking at data that compares qualification levels by LEPs across England, 34% of people aged 16-64 are educated to degree-level or equivalent, with London and the South East dominant in the areas that have qualification levels higher than the English rate.<sup>14</sup>

Of the 16 LEPs where that level exceeds the 34% figure, nine of them are in London or the South East. The lowest rate is found in the Humber LEP, at 25.7%, but there are a further nine LEPs with rates of degree or equivalent qualified people below 30%.

Statistics published by the Universities College and Admissions Service (UCAS) also confirm wide variations in regional application rates for students wishing to start university in 2014. The rate in London (for 18 year olds) is 43.5%, while for the South West the rate is only 30.3% (the lowest rate in England).<sup>15</sup>

Taken together, these variations in applications to, and attainment at, university demonstrate a vast amount of untapped talent in the regions.

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### Recommendation 1 Addressing the regional attainment gap

The Departments for Business, Innovation and Skills and Education should involve local and regional stakeholders, including universities and colleges, to develop strategies and set targets to tackle variations in regional educational attainment and participation in higher education

<sup>10</sup> First used by Harvard Business School professor Michael Porter in 2002

<sup>11</sup> We use the term modern universities to refer to any institution awarded university title since 1992

<sup>12</sup> Trends in young participation by student background and selectivity of institution, OFFA, 2014/01. Available at <http://www.offa.org.uk/publications/>

<sup>13</sup> All statistics are taken from HESA Students 2011-12

<sup>14</sup> See LEP Profiles, Local Authority Comparator Tool, November 2013, available at <http://www.ons.gov.uk/ons/rel/ness/local-enterprise-partnership-profiles/november-2013-update/index.html>

<sup>15</sup> UK application rates by country, region, sex, age and background (2014 cycle, January deadline), UCAS Analysis and Research, 31 January 2014

## The regional value of graduates

Increasing access to universities and providing more people with the opportunity to participate in higher education benefits individuals, society and the economy.<sup>16</sup> From a regional perspective, these benefits can have an extremely significant impact – ensuring that there are more graduates in the areas where businesses and the not-for-profit sector need highly qualified staff and adding value to the regions through the economic benefits associated with graduate qualifications.

While many graduates seek work in London and the South East, in comparison in some regions very high proportions of graduates reside, study and then work in the same region – or in the alternative work in regions in which they have studied. For example, as shown in Figure 2, less than half of the graduates of institutions in London and the South East obtain employment in those areas whereas over three-quarters of graduates in the North East go on to work in the region.<sup>17</sup>

Using this data and the Labour Force Survey, London Economics has undertaken new modelling to estimate the regional economic impact generated by universities in respect of the graduates whom they teach. By analysing data from the Destination of Leavers from Higher Education Survey and the Labour Force Survey, the private economic benefit to individuals and the economic benefit to the Treasury have been estimated for a single cohort of graduates in possession of an undergraduate degree. The analysis takes into account the benefits generated by universities due to graduates staying in the same region to work but also the benefit to other regions of those of their graduates who obtain employment elsewhere.

Figure 2: Graduate destinations by region



<sup>16</sup> million+ / London Economics *What's the value of a UK degree?* Jan 2013

<sup>17</sup> million+ + analysis of HESA UK domiciled leavers in employment within the UK by level of qualification obtained, region of institution and region of employment 2011/12

## The regional value of graduates continued

The combined total of the private and Treasury economic impact of universities in their regions is outlined in Figure 3. This also shows the economic impact generated by universities in regions other than the one in which they are located.<sup>18</sup> The analysis highlights how much of that economic impact occurs in each region on account of graduates obtaining employment in the region in which they have studied. Importantly it confirms

that the majority of the economic impact generated by universities through the education of graduates in the regions takes place in the regions.

In the North East, the North West, Yorkshire and Humber, the East Midlands, the West Midlands and the South West, over 60% of the economic impact generated by the universities on account of their graduates, happens in those regions. In the North East and North West, the figure exceeds 75%. This economic impact is achieved despite the lower regional participation and attainment rates already noted. Incentivising and encouraging participation in higher education in the regions is therefore likely to have positive outcomes in terms of regional growth as well as having wider positive spill-over effects for employers and regional economies.

**Figure 3: Total economic impact generated by Higher Education Institutions (£million p.a.)**

	Location of HEI								
	North East	North West	Yorkshire/Humber	East Mid	West Mid	East of England	London	South East	South West
<b>Impact on</b>									
North East	<b>1,377</b>	113	237	51	32	54	343	89	26
North West	98	<b>3,324</b>	308	145	211	104	552	164	70
Yorkshire/Humber	151	469	<b>2,151</b>	332	163	176	703	201	76
East Midlands	29	139	239	<b>1,478</b>	314	311	889	324	85
West Midlands	14	132	69	179	<b>1,650</b>	135	553	237	133
East of England	11	31	33	71	37	<b>1,113</b>	919	191	34
London	20	55	50	70	75	328	<b>5,027</b>	679	101
South East	17	50	45	84	106	330	1,890	<b>2,305</b>	273
South West	14	48	44	63	151	142	941	523	<b>1,411</b>
<b>Total</b>	<b>1,731</b>	<b>4,361</b>	<b>3,176</b>	<b>2,473</b>	<b>2,739</b>	<b>2,693</b>	<b>11,817</b>	<b>4,713</b>	<b>2,209</b>
% of income generated retained in the region	<b>80%</b>	<b>76%</b>	<b>68%</b>	<b>60%</b>	<b>60%</b>	<b>41%</b>	<b>43%</b>	<b>49%</b>	<b>64%</b>

Source: London Economics' analysis of Labour Force Survey and Destination of Leavers from Higher Education ©EuroGeographics for the administrative boundaries.<sup>19</sup>

**“Less than half of the graduates of institutions in London and the South East obtain employment in those areas whereas over three-quarters of graduates in the North East go on to work in the region.”**

<sup>18</sup> The analysis is likely to underestimate the true economic impact of universities as it uses destination data from 6 months after graduation

<sup>19</sup> All estimates generated represent the discounted value of the future stream of private or Exchequer benefits associated with a single cohort of higher education graduates in possession of an undergraduate degree

## Unlocking talent and ambition to boost regional growth

Investing in higher education and improving access to universities for students across the country makes economic sense and will generate significant economic impact for the regions. However, funding regimes and media stereotypes often assume that all students enter university aged 18 or 19 and that all study full-time. In fact by 2009-10, one in three students were found to have progressed to university for the first time when they were over 21.<sup>20</sup>

Modern universities have long-standing traditions of offering more flexible study routes, accrediting workplace learning, developing multi-disciplinary, vocational and professional courses, and offering new opportunities to those who wish to study for a higher education qualification later in life. However, the 2012 reforms and the economic downturn have triggered a decline in part-time enrolment and in the support from employers to fund degrees.

Similarly, most graduates return to postgraduate study several years after completion of their first degree rather than continuing immediately, with the majority studying part-time. In 2012-13, there were approximately 530,000 postgraduate students studying in the UK; around 68% of them were aged 25 years or over.<sup>21</sup>

Opening up and promoting higher education to students of all ages, including those already in work, those with dependents and those who want to study part-time and on a more flexible basis, is vital. This would benefit individuals and employers, add economic value to the regions and contribute to more dynamic regional economies. The government should build on the expertise of universities to achieve this.

The lifting of the cap on funded student numbers in 2015 arguably makes it more difficult to introduce a regional strategy to boost access and participation. However, in general terms, increasing the supply of funded student places will increase opportunities and widen access.

The government should therefore invest a proportion of the proceeds from the sale of the student loan book into boosting access to higher education via specific, flexible routes rather than relying only on the traditional recruitment of 18 year olds on to 3-year full-time degrees. In addition, the government should invest in 50,000 additional postgraduate places.

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### Recommendation 2 Investment to create new educational opportunities

Some of the proceeds from the sale of the student loan book should be used to:

- incentivise and support flexible routes to study, work-based learning and opportunities to study for a degree later in life
- provide funding to universities for 50,000 additional postgraduate places over a 5-year period with two-thirds allocated to part-time postgraduate study linked with professional, industry or public-service based programmes

<sup>20</sup> million+ & NUS *Never too late to learn* 2012

<sup>21</sup> million+ analysis of HESA Students 2012-13

## Highly skilled jobs: encouraging regional demand

It is not enough just to boost the supply of graduates in the regions. Government must also seek to stimulate demand for highly skilled jobs. Positive measures should be taken to enhance student and graduate employability, work experience and help small businesses to utilise the talents of students and graduates.

Incentivising these relationships is likely to result in beneficial and significant spillover effects at regional level as well as within companies. For example, a one percentage point increase in the share of graduates in the local labour market has been estimated to enhance wages of between 0.4-1.9% at city level.<sup>22</sup> Other research has found a spillover effect at regional level of around 0.2% and 0.6% for high skilled and low skilled workers respectively.<sup>23</sup>

### Bath Spa University "Bridging HE/Industry gaps"

Design Buddy is a successful mentoring scheme for final year undergraduate design students, established to enhance their commercial awareness and final preparation for launching their careers in the creative industries. Design Buddy develops talent, tackles industry-informed skills gaps in the local creative economy and helps industry tap into a rich talent stream emerging from Bath Spa University. The project, whilst supporting students who may lack the personal and professional connections to gain an advantage in entering the sector, also seeks to retain graduate talent in the local labour market.

### University of Sunderland "Graduate Internships for Small and Medium Sized Enterprises (SMEs)"

The project provides business support to North East SMEs by identifying recent graduates with relevant higher level skills and placing them with local companies on an internship basis for 6 months. The intern's support helps the business to grow and develop or better manage in the current economic climate. A key element of the project is the provision of a subsidy towards the employment costs of the graduate. This assists those SMEs who would not normally be able to afford to appoint an intern, and encourages those SMEs that do not yet see the value of employing graduates to trial this approach to business improvement.

### Recommendation 3

A system of tax credits and vouchers should be introduced to enable small businesses to:

- benefit from the talents of undergraduates and postgraduates for short-term projects and provide students with the opportunity to enhance their employability skills
- recruit graduates on to 3-6 month paid internship programmes
- employ recent graduates for at least one 12-month period

<sup>22</sup> Workers' Education, Spillovers, and Productivity: Evidence from Plant-Level Production Function, Moretti, 2004 <http://emlab.berkeley.edu/~moretti/text18.pdf>

<sup>23</sup> External Effects of Education: Human Capital Spillovers in Regions and Firms, Bauer and Vorell, 2010 [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1670589](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1670589)

## Collaborative and translational research

Increasing the number of graduates in the regions will bring significant economic benefits but universities do not just add value to the regions by teaching and learning. Collaborative and translational research is an integral part of the regional dynamic and supports innovation and improvements in service delivery and outcomes in both the private and public sectors.

Modern universities are extremely well placed to support a strategy that promotes sustainable and balanced growth in the regions through translational research. They do far better proportionately than other universities in adding regional value via contract research – with higher levels of the work being derived from organisations within the same region as the institution. This is true across all categories: small and medium size enterprises (SMEs), large businesses, and public and third sector organisations.

For example, 30% of all research contracts with SMEs were undertaken within the region in which modern universities were located, compared to 22% among all institutions. Looking at large business contracts in the same way, the figure for modern universities is 14% compared to 9% among all institutions.

The picture for university consultancy contracts is similar. For public and not-for-profit sector consultancy contracts, 36% were undertaken within the region in which modern universities

were located compared to 22% among all universities. Of the total value of those contracts, 42% was derived from within the region, compared to 34% among all universities. Overall, 36% of the total value of consultancy contracts was derived from within the regions in which modern universities were located, compared to 29% among all institutions.<sup>24</sup>

Modern universities play a vital role in supporting collaborative and translational research with major companies and SMEs but they do this with relatively low levels of investment from government. Even though it is a driver of innovation, improved productivity and outcomes, government has not offered dedicated financial support to translational research, unlike in many Nordic countries where there is a greater focus on this funding.

The government should address this by providing a new stream of funding for translational research to support the exploitation of research wherever it originates. This investment should be directed at those universities which currently receive lower levels of public research funding, with outcomes evaluated over a set period of time to assess the extent to which this funding has created positive impacts in respect of businesses, the not-for-profit sector and added value in the regions.

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### Recommendation 4 A new fund for translational research

A new stream of funding to support translational research should be established by the government to be accessed by universities receiving lower levels of public research funding

**“Modern universities are extremely well placed to support a strategy that promotes sustainable and balanced growth in the regions through translational research.”**

<sup>24</sup> million+ analysis of HESA Finances 2011-12

## Investing in the regional research base

The way in which government provides investment for research infrastructure also determines the extent to which universities can respond to the needs of national and regional stakeholders as well as to new and emerging markets and supply chains. The impact of research funding policies upon regional capacity and growth has been given little consideration, but the statistics confirm that large and small businesses benefit from, and award, research and consultancy contracts within their regions. Research-informed teaching, scholarship, research activities and collaborations and knowledge exchange are all integral to the role of universities, supporting them to maximise the benefits to undergraduate and postgraduate students.

It should be a fundamental principle that universities with research degree awarding powers receive funding for research infrastructure. In the UK currently public investment for research infrastructure is derived from the allocations associated with the capital and revenue funding linked to the Research Excellence Framework.<sup>25</sup> However, successive governments have pursued policies resulting in the concentration of research funding in an increasingly small number of universities, notwithstanding improvements in research quality across all universities.

Since 2010, that research funding has been cash limited, resulting in an overall reduction in funding in real terms. The Coalition Government has also pursued policies that have promoted hyper-selectivity and skewed research funding even more towards a small number of institutions.

For example, in the 2008 RAE, research intensive universities were assessed as having 62% of research at 3\* or 4\* level, but by 2011-12 they were receiving 71% of the funding available from the Funding Councils and the Research Councils. By comparison, modern universities were assessed as having 9% of research at 3\* or 4\* level in 2008, but by 2011-12 were only awarded 5% of available funding.<sup>26</sup>

In spite of the reduction in the overall allocation, by 2012 24 universities were in receipt of 1.4% more research funding than in 2009 while funding in all other universities had declined. These policies have also increased the concentration of research funding in regions such as London, the South East and the East of England, although within these areas the distribution of research funding is highly concentrated.

To unlock economic value within the regions, the government should ensure that all universities benefit from research infrastructure investment.

### Anglia Ruskin University "MedTech Campus"

This creation of one of the world's largest health innovation spaces in Essex will help to establish the UK as a global force in a growing sector worth £170 billion per year. The preliminary stages leading to the physical campus development are being supported by a European Regional Development Fund-funded Business Services Network programme. These sites will provide the infrastructure necessary to support innovation with a combined space of at least 120 acres. Each location will have an innovation centre linked to the provision of business and ancillary support services.

### Recommendation 5 Boosting the role of universities by funding research infrastructure

All universities that have research degree awarding powers should receive funding for research infrastructure

<sup>25</sup> Formerly the Research Assessment Exercise or RAE

<sup>26</sup> million+ analysis of RAE2008 and HESA Finances of HEIs 2011-12

## Adding community value and improving regional outcomes: the not-for-profit sector

Assessments of the role of universities as anchor institutions in their regions often do not factor in the monetary and non-monetary value of their activities as key providers of professionally qualified graduates who work in the regions in which they studied. For example, in education, the NHS, social care and many other areas, universities are educating the professional staff who will play a key role in adding value and driving innovation in their regions.

In 2011-12, 40% of graduates were working in education, health or social care sectors.<sup>27</sup> In addition, universities engage with public sector and not-for-profit organisations to improve outcomes in relation to service delivery and professional practice through continuous professional development, research contracts, consultancy and knowledge exchange partnerships. In 2011-12:

- 23% of all public and third sector research contracts were undertaken within the region in which modern universities were located, compared to 19% among all institutions
- 21% of the total value of public and third sector research contracts was derived from SMEs in the region, compared to 14% among all institutions<sup>28</sup>

It is equally important that the outcomes of these activities both in terms of graduate supply, research and Knowledge Transfer Partnership

(KTP) activities are valued by the Department for Business, Innovation and Skills (BIS) and the Treasury, and that the impact of these activities on regional outcomes inform the policies pursued by other government departments, including education and health.

### Canterbury Christ Church University "KCFN Partnership"

Canterbury Christ Church University partnered with a third sector organisation, Kent Children's Fund Network (KCFN – now incorporated into CXK Ltd), supporting the development of a financially sustainable training centre and business model to: support professional development and training for the children's workforce; and further to develop play days and activities for families across Kent. The key outcomes from the project for KCFN included: being repositioned as a preferred provider for the training of the children's workforce; winning new contracts and partnerships; achieving a 12% increase in the number of stakeholders rating KCFN as excellent in market surveys; generating 45% of income from sustainable sources; and making cost efficiencies from staffing and structural changes.

### Promoting knowledge exchange and innovation

As institutions geared towards research, innovation and knowledge transfer, universities generate intellectual property and new spin-out businesses:

- Staff at modern universities set up 45 new companies or 52% of all staff spin-outs
- Graduates of modern universities set up 1,634 new businesses or 60% of all graduate start-ups
- Overall modern universities set up 1,736 new companies or 58% of all university start-ups in 2011-12<sup>29</sup>

**"In 2011-12 graduates of modern universities set up 1,634 new businesses or 60% of all graduate start-ups."**

<sup>27</sup> million + analysis HESA Destination of Leavers, 2011-12

<sup>28</sup> million+ analysis of HESA HE-BCI 2011-12

<sup>29</sup> million+ analysis of HESA HE-BCI 2011-12

## Adding community value and improving regional outcomes: the not-for-profit sector continued

Some KTP funding is available via the Technology Strategy Board (TSB). Modern universities are highly successful at accessing this funding and promoting KTPs although there is criticism of changing TSB criteria and priorities. However, some of the former RDAs funded innovation vouchers which supported small-scale successful university-business collaborations that were highly responsive to local business needs. This funding ended when the RDAs were abolished. Limited innovation voucher funding has subsequently been allocated by the TSB. Rather than a centrally managed scheme, a new and enhanced innovation voucher funding 'pot' should be identified and redirected to universities to allow them to respond more rapidly to the knowledge exchange requirements of local and regional businesses.

### London Metropolitan University "Zero Emission Vehicle Communications Network" (Z-NET)

The Z-NET project will create a network for Knowledge Exchange to support the full-scale commercialisation of zero emission vehicles (EVs) and enable more effective communication of the benefits of electric driving to mainstream markets. Z-NET will enable the development of innovative communications strategies to increase awareness and engage mainstream private drivers and firms. It will support early market conversion from Internal Combustion Engine (ICE) vehicles and facilitate stakeholder collaborations in three UK regions where adaptation to EVs has been given a high priority by consortia of urban authorities, commercial and not-for-profit sector agencies (Greater London, East of England and North East England).

### University of Cumbria "Knowledge Action Network"

This project will enhance regional growth by unlocking the knowledge and innovation capacity and culture of over 42 Cumbrian SMEs, whilst the overall project will work with over 210 companies. This will be achieved through delivery of detailed diagnostics, coaching, knowledge action groups, workshops and technical support. The programme aims to create a peer-to-peer network between SMEs to stimulate creative thinking and innovative practices that will enable increased growth, productivity, competitiveness and job creation in the participating businesses.

### Recommendation 6 Investing in university-business collaboration

Innovation voucher and Knowledge Transfer Partnership schemes should be redirected to universities so that they can be responsive to the needs identified by small businesses in their regions, rather than working to centrally determined priorities

**"New innovation voucher and knowledge transfer partnership schemes would enhance university-business collaboration in the regions."**

## Refocusing the Higher Education Innovation Fund

The Higher Education Innovation Fund (HEIF) was established in 2001 to support and develop a broad range of knowledge-based interactions between universities and the wider world to add economic and social benefit to the UK. Funding for HEIF increased to £238m for the 2006-08 period and allocation moved from a competitive to a formulaic basis, with a cap on funding to deliver a more equitable and wider distribution. This also ensured that universities could employ staff over longer periods rather than on a short-term basis.

In 2011 the Coalition Government asked the Higher Education Funding Council for England (HEFCE) to review the formula in advance of the HEIF 2011-15 funding round. As million+ commented at the time:

*"It appears that the agenda of greater selectivity which is being applied to research funding is being transferred to HEIF funding without any clear or persuasive cost-benefit analysis or evidence base to demonstrate that this is the most effective use of taxpayer funding. This undermines the purpose of HEIF, will reduce the probability of new interventions on a more geographically dispersed basis and will discriminate against some strategically important sectors of the economy such as the creative industries."*<sup>30</sup>

HEFCE had also previously encouraged universities to innovate and respond to new opportunities to support growth through the use of HEIF funds for forms of knowledge exchange beyond those which could be captured in the formula.

As a result, HEIF funding had been deployed flexibly by universities and for example, had been used to match programmes and draw down European and Working Neighbourhood Funds in co-operation with other organisations.

Notwithstanding these concerns, the HEIF funding formula was amended. Consequently, some universities have been excluded from HEIF on the grounds that the value of their HEIF activities did not meet a minimum threshold. In comparison, institutions which benefit significantly from HEFCE and Research Council funding have received additional HEIF allocations. This approach undermines the potential for new initiatives and is a further example of public investment which was intended to incentivise university-business collaboration across the country being skewed towards a smaller number of institutions.<sup>31</sup> By 2013-14, the overall HEIF allocation had fallen to £113m with the current funding round due to end in 2015.

### Recommendation 7 Maximising the benefits of HEIF

- The value of the Higher Education Innovation Fund should be increased and allocated on a multi-year basis
- Capacity building in all universities should be promoted by removing the lower threshold for HEIF allocation
- A new formula should be adopted to ensure that interaction with the creative and cultural sector is valued

<sup>30</sup> million+ HEIF Consultation April 2011

<sup>31</sup> A report by Sir Andrew Witty in October 2013 on universities and growth considered how the HEIF could be used further to support regional growth [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/249720/bis-13-1241-encouraging-a-british-invention-revolution-andrew-witty-review-R1.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249720/bis-13-1241-encouraging-a-british-invention-revolution-andrew-witty-review-R1.pdf)

## Regional growth and the creative industries

The readjustment of the HEIF formula raises wider questions about the Coalition Government's focus on science, technology, engineering and mathematics (STEM) degrees and research and development-led sectors of the economy in contrast to sectors like the creative and cultural industries.

STEM is undoubtedly important but the effective exclusion of other sectors of the economy in which universities have been highly successful undervalues the extent to which the cultural and creative industries have the potential to drive growth in the regions and the wider economy.

The value of these industries to UK plc is larger than ever but is typified by small owner-managed companies. The redistribution of HEIF resulted in funding cuts to universities strong in the disciplines that support the creative industries and is a further example of opportunities to boost growth in the regions (through avenues other than STEM) remaining unexploited.

### A Small Business Agency

The potential of small businesses to contribute to regional growth has been undervalued by politicians and policymakers in the UK. In comparison, President Obama has established the Small Business Administration (SBA) in the US which has a mandate to promote impact investment in economically distressed regions and help innovative small businesses obtain early-stage financing.

### University of Sunderland "Software City"

A new generation of entrepreneurs are choosing to make the North East the place to start their business, attracted by state of the art affordable accommodation, unbeatable communications connectivity and the extensive support infrastructure that exists to fuel the region's software industry. Through Sunderland Software City the university works with the region's technology businesses to help them reach their full potential, supporting enterprise through business advice, access to finance, technical support, market opportunities and collaboration. More than 1500 software companies are now operating across the North East, employing in excess of 25,000 people and the region is now home to more IT start-ups than any other region outside of London.

As a high priority, the government should establish a well-funded small business agency along the lines of the SBA which should be mandated to support innovative small businesses and start-ups as well as address the imbalances in regional growth. This agency should have a direct reporting line into both the Secretary of State for BIS and the Cabinet Office so that it has a strong voice at the heart of government. It should also be required to identify and measure the added value of its activities over a specific period.

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### Recommendation 8 A new Small Business Agency with a regional focus

- The government should establish a Small Business Agency to support small businesses
- The SBA should develop a regional strategy which includes promoting partnerships between small businesses and the research, knowledge and expertise available in universities

## Raising regional equity

The problems which businesses and in particular small businesses have experienced in respect of accessing and raising equity since the global financial crisis are well-documented.

As a result, the Coalition Government announced it was establishing a Business Bank with £1 billion of funding.<sup>32</sup> The Bank is operating as a part of BIS rather than an independent state-owned company pending EU state aid clearance. However, no consideration appears to have been given as to whether the Bank should have a regional remit.

### Recommendation 9 Raising equity within the regions

The Business Bank, and any subsequent regional investment banks, should be tasked with developing strategies to raise equity and debt finance within the regions and increase investment in university-SME collaboration

#### Structures to support university-business collaboration

Under the previous government the English RDAs invested £20 billion into regional development projects and initiatives over ten years, with mixed success. The demise of the RDAs has resulted in a lack of coherence in regional policy but BIS retains a small number of regional staff. The role of these staff and the function of government offices in the regions should be reviewed with a view to these offices supporting the development and delivery of more coherent regional strategies. It is also the case that the Local Enterprise Partnerships vary in strength and focus, in spite of expanding government expectations about their role which can include investment in infrastructure projects.

Owing to the large number of LEPs (39 in total), universities are often required to engage with more than one LEP. In other cases, one university may be represented on a LEP on the assumption that the university will liaise with other educational institutions in the LEP area. BIS should review the effectiveness of the LEPs, consider the merit of collaborations and ensure that university representation is increased. LEP investment in infrastructure to support university-business collaboration should also be subject to evaluation.

#### Staffordshire University "The Business and Innovation Group (BIG)"

BIG is a strong and credible partnership which aims to maximise its collaborative potential for leveraging investment and funding into the Staffordshire and Stoke-on-Trent LEP area. The group works in partnership to drive economic recovery through innovation, knowledge exchange and easy access to applied research, skills and facilities. It comprises Staffordshire University, Keele University, Keele University Science and Business Park and the North Staffordshire Chamber of Commerce to provide organisations with specialist and strategic advice.

### Recommendation 10 Strengthening Local Enterprise Partnerships

BIS should:

- review the effectiveness of Local Enterprise Partnerships to ensure coherent coverage and activity across regions
- require further university representation on LEP Boards
- evaluate the extent to which LEP investment in infrastructure projects is promoting collaboration between universities and small businesses

<sup>32</sup> Announced in the Government's response to the Heseltine review in March 2013: <https://www.gov.uk/government/publications/governments-response-to-the-heseltine-review-into-economic-growth>

## Conclusion

Universities shape the very fabric of the places in which they are located in myriad ways through:

- their intellectual contribution, brand and infrastructure
- their role as major employers and purchasers of goods and services
- teaching, research and knowledge transfer
- investment in infrastructure and facilities
- alumni networks in the UK and overseas
- collaborations with a host of local, national and international partners
- extensive engagement, relationships and contracts with businesses of all sizes

In order to address long-term imbalances in economic growth in the regions, government needs to adopt a new approach that capitalises on the strengths of universities and their graduates.

The recommendations in this report should be an integral part of a new strategy to boost the role of universities in driving regional growth.

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