

**House of Commons Business, Innovation and Skills Committee
Inquiry into Business-University Collaboration-April 2014**

Introduction

1. million+ is a university think-tank which provides evidence and analysis on policy and funding regimes that impact on universities, students and the services that universities provide for business, the NHS, education and the not-for-profit sectors.

Business-University Collaboration

2. Collaboration between universities and businesses, whether through joint working, commissioned research, graduate placements, internships, or the provision of training courses for employees is a key factor in generating economic impact and positive spill-over effects for local companies and new opportunities for individuals. We therefore welcome the Inquiry and would draw the Committee's attention to *Smarter regions, Smarter Britain*, a research report published by million+ in March 2014 which outlined a series of recommendations linked to business-university collaboration.
3. 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 are deep-rooted problems, which will require solutions that draw on the strengths of universities, which are key economic, social and cultural powerhouses in the regions, and create the conditions in which their capacity to collaborate with businesses are enhanced.
4. A key aspect of business-university collaboration is in the provision by universities of highly skilled graduates with the attributes needed to ensure businesses grow and develop. Modern universities in particular¹ have long-standing traditions offering more flexible study routes accrediting workplace learning, developing multi-disciplinary courses, vocational and professional learning and promoting new opportunities to those who wish to study for a higher education qualification later in life or change career focus. In 2012-13 alone they awarded 14% of all PhDs, 32% of all other degrees, 54% of other postgraduate qualifications, 52% of first degrees, 81% of all foundation degrees, 73% of HND and DipHE awards and 61.5% of other undergraduate qualifications. From a business perspective these qualifications have an extremely significant impact and in many regions high percentages of graduates reside, study and then work in the same region, also generating significant economic impact for individuals, regions and the Treasury (see Appendix 1). However there are also sharp regional differences in the number of people studying for a higher education qualifications.
5. Data from the Higher Education Funding Council (HEFCE) has confirmed that numbers of part-time undergraduate entrants almost halved between 2010-11 and 2013-14². Most of the decline was in qualifications often directly linked with employer-focused courses other than first degrees. UK postgraduate taught numbers have also continued to decline. For their part, universities report that employer co-funding of courses and students has fallen under the 2012 fee regimes.

¹ We use the term 'modern universities' to refer to any university that gained title after 1992

² *Higher Education in England 2014, Key facts*, HEFCE April 2014

Recommendation 1

To boost graduate supply linked with business-university collaboration, some of the proceeds of the sale of the student loan book should be invested to

- **promote access to higher education particularly in regions with lower levels of participation**
- **incentivise and support flexible routes to study, work-based learning and opportunities to study for a degree later in life**
- **provide funding for 50,000 additional postgraduate places with two-thirds linked to part-time professional, industry or other workplace-based programmes.**

6. It is not enough for government to boost the supply of graduates. Government must also do more to stimulate demand for highly skilled jobs and in particular, support small businesses. This would help small businesses to utilise the talents of students and graduates and have the advantage of enhancing student and graduate employability and work experience.

Recommendation 2

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

- **benefit from the talents of undergraduates and postgraduates for short-term projects**
- **recruit graduates to 3-6 month paid internship programmes**
- **employ graduates for at least one 12 month period**

Promoting applied and translational research

7. Creating a strong supply of graduates brings significant economic and societal benefits and positive spill-over effects for business and the economy at national and regional level but it is not the only lever available to government. The Government has invested in Catapult Centres but these are limited in scope and geographic reach and are unlikely to promote the wider business-university collaboration that is required including by small and medium sized enterprises (SMEs).

8. Unlike in many Nordic countries where it is accepted that translational research is an integral part of a dynamic, vibrant environment that creates effective conditions for business-university collaboration, investment in translational research has not been part of the UK's research funding ecosystem. Modern universities play a vital role in supporting collaborative and translational research with major companies and small and medium enterprises (SMEs), but they do this with relatively low levels of investment. Even though it is a driver of innovation, improved productivity and outcomes, government has not provided dedicated investment to support translational research.

9. Analysis of institutional finances by million+ suggests that modern universities, through contract research and consultancy with businesses, create proportionately more value within regions than other universities. For example, in 2011-12 30% of all research contracts with SMEs were undertaken within the region in which modern universities were located, compared to 22% among all institutions.³

Recommendation 3

The Government should provide a new stream of funding for translational research to support the exploitation of research wherever it originates. This investment should be directed at those

³ Smarter Regions Smarter Britain, p9, available at: <http://www.millionplus.ac.uk/research-policy/reports/latest-reports/research-report-smarter-regions-smarter-britain-boosting-regional-growth-through-universities>

universities which currently receive lower levels of public research funding, with outcomes evaluated over a set period to assess the extent to which this funding has created positive impacts in respect of businesses and the not-for-profit sector.

Knowledge transfer partnerships (KTPs) and innovation vouchers

10. KTPs are highly valuable in encouraging collaboration between businesses and universities. There are some concerns, however, that the administrative effort that is currently required to create successful partnerships can be off-putting, slow and create barriers to collaboration. The process to access innovation vouchers through the Technology Strategy Board is also subject to criticism. Some universities actively choose not to engage with the TSB process on account of its changing criteria and priorities. They also find it unhelpful to engage with a system that is centrally determined – the TSB sets five priorities into which bid activities have to be aligned – rather than one that is responsive to individual local needs.
11. Knowledge exchange funding results in expertise being exported from universities to industry, with learning delivered by academic mentors in the business (as opposed to in a classroom). Due to the way KTPs are structured, this often means that the opportunities are subsidised by the universities. This could mean that knowledge transfer partnerships inadvertently compete in the employee education market alongside undergraduate and postgraduate degree programmes. One risk is that employers see this as a ‘cheaper’ option than formal education of employees and so opportunities for increased learning and development are not pursued.
12. Employee scholarships can usually only be afforded by larger businesses (and these are usually predominantly in the science, technology, engineering and mathematics (STEM) sector). Those universities which engage with creative industries are more often dealing with smaller (but more numerous) companies which cannot afford the level of investment required for scholarships or other knowledge transfer / research development mechanisms. The creative industries are the fastest growing sector in the UK economy – worth £8 million per hour to the UK⁴ – but are not included in the Government’s industrial strategy. As a result there is no clear focus on the impact of policies related to business-university collaboration on one of the UK’s most important economic assets.

Recommendation 4

Innovation and Knowledge Transfer Schemes should be expanded and the funding redirected to universities so that they can respond more rapidly to the knowledge exchange requirements of local and regional businesses.

Higher Education Innovation Fund

13. 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 institutional distribution.
14. In 2011 the Government asked the HEFCE to review the formula in advance of the HEIF 2011-15 funding round. This review resulted in changes that introduced more selectivity into the formula, and moved away from the more innovative approach that had been a key part of the funding

⁴ See <https://www.gov.uk/government/news/creative-industries-worth-8million-an-hour-to-uk-economy>

scheme. One risk, identified by million+ at the time⁵, was that the changes would lead to a narrower scheme that did not provide opportunities for all sectors to engage. Under the revised formula, a minimum income generation threshold has been introduced. Some universities (often ones with lower research funding levels generally) have been excluded from HEIF on the grounds that their knowledge exchange is not of sufficient value. However, in comparison, institutions that benefit significantly from HEFCE and Research Council funding have received additional HEIF allocations.

15. As a result, the potential for new initiatives and engagement with industries in the creative and cultural sectors have been undermined and investment designed to incentivise business-university collaboration across the country has been skewed towards a smaller number of institutions. This is in addition to reductions in the overall HEIF funding allocations to £113m in the current round. The Government has yet to provide any indication of what will happen to HEIF when this funding round finishes in 2015.
16. The readjustment of the HEIF formula also raises wider questions about the government's focus on science, technology, engineering and mathematics (STEM) to the detriment of attention on other vital sectors. The STEM sectors are undoubtedly of huge importance to the economy, but the risk is that other hugely successful areas such as the creative industries are again undervalued. The latter are typified by micro or small owner-managed companies. The redistribution of HEIF resulted in funding cuts to universities strong in the disciplines that support the creative industries. This limits opportunities to exploit the potential of all businesses and industries to collaborate with universities, and so boost economic growth.

Recommendation 5

In order to maximise the benefits of HEIF

- **the value of government investment in HEIF 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 sectors is valued**

A Small Business Agency and the Business Bank

17. To date, policy initiatives and funding regimes have not fully recognised the potential of promoting SME collaboration with universities. In comparison the Obama administration has given extra focus to the Small Business Administration Agency (SBA) which has a mandate to promote impact investment in economically distressed regions. Moreover, no consideration appears to have been given to the merits of ensuring that the newly created Business Bank has a regional remit or encourages investment in business-university projects and initiatives.

Recommendation 6

The Government should

- **establish a new Small Business Agency with a regional strategy which includes the promotion of partnerships between small businesses and the reproach, knowledge and expertise available in universities**

⁵ million+ response to HEIF Consultation April 2011

- **ensure that the Business Bank is tasked with developing strategies to raise equity and debt finance and increase investment in business-university collaboration**

Local Enterprise Partnerships

18. The extent to which the abolition of the Regional Development Agencies (RDAs) in 2010 and the establishment of 39 Local Enterprise Partnerships (LEPs) have benefitted business-university collaboration remains doubtful. The overall performance of the LEPs has been criticised by the National Audit Office – and universities have expressed similar concerns. In some cases university interests straddle more than one LEP geographically, further complicating the situation.
19. There is a case for a stronger coordinating role to be taken by the Department for Business, Innovation and Skills (for example, by drawing on the staff and function of the government offices in the region). The contribution of the LEPs to business-university collaboration and investment in infrastructure should be further evaluated with a view to ensuring greater co-ordination and collaboration.

Conclusion

20. Businesses and universities have close relationships but the infrastructure in place to incentivise collaboration can be difficult to negotiate; funding in some areas e.g. HEIF has been cut and become more concentrated and there has been a decline in part-time and postgraduate study linked with qualifications which have positive spillover effects for individuals and employers. Unlike in the Nordic countries, successive governments have not identified investment in the translational research which underpins innovation and supports business-university collaboration, as a priority. Policy and funding regimes have been too slow in adjusting to the different structural environment which applies to business-university collaboration in the creative and cultural sectors and major questions remain about LEP infrastructure and performance.
21. Notwithstanding these issues, business-university collaboration has been a key feature of higher education in the UK, with some institutions deeply rooted by tradition and practice in this agenda both in terms of graduate supply, research and wider knowledge exchange partnerships. The focused measures and new funding initiatives which we have outlined in this submission would ensure that the government capitalises on these strong foundations, enhances the work that is currently taking place and further incentivises university-business collaborations in ways which are likely to be best value for the Treasury and BIS and also add value in terms of promoting economic growth including in regions outside of London and the South East as well as wider societal value.

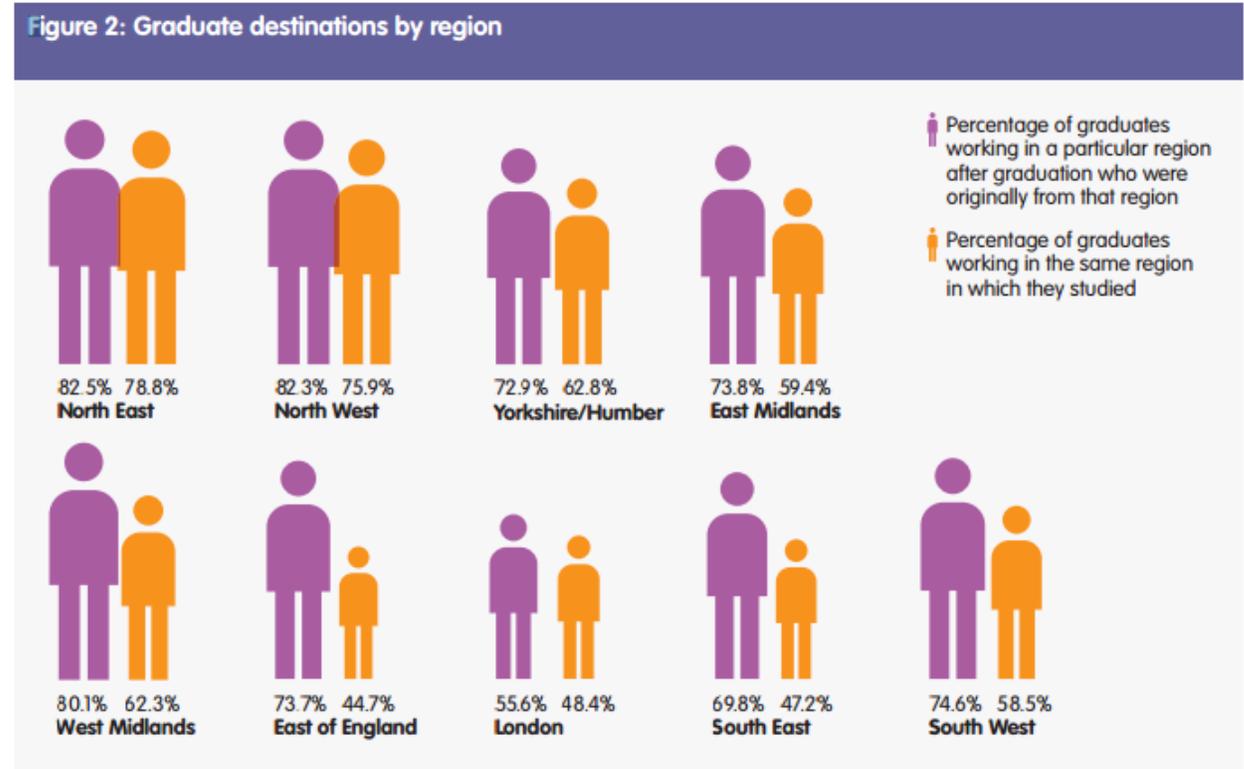
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Appendix 1

Graduate destinations by region (extract from p5 [Smarter Regions Smarter Britain](#))



Total economic impact generated by Higher Education Institutions (£million pa)
 (extract from p6 [Smarter Regions Smarter Britain](#))

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