



Science and Technology Committee

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From Rt Hon Greg Clark MP, Chair

Rt Hon Kwasi Kwarteng MP
Secretary of State for Business, Energy and Industrial Strategy
(By e-mail)

17 November 2021

Dear Secretary of State,

The role of technology, research and innovation in the covid-19 recovery: lessons from the North West region of England

I'm writing to you following the Committee's [23 September visit to and oral evidence session](#) in Manchester, as part of its inquiry into [the role of technology, research and innovation in the covid-19 recovery](#).

During the morning we visited [Bruntwood SciTech's Citylabs campus](#), which houses over 30 businesses working in areas such as genomics, medtech, precision medicine, diagnostics, digital health driving the future of healthcare, and toured [Yourgene Health's](#) labs, which is now developing, manufacturing and processing covid-19 tests. Afterwards, we met with leaders from local businesses based in [Manchester Science Park](#).

In the afternoon, we heard from local academics and business leaders, including the University of Manchester's Professor Richard Jones and Bruntwood's CEO Chris Oglesby.

The witnesses rightly pointed out the areas in which Greater Manchester and the North West generally are leaders in the UK, for example in health innovation, advanced materials, energy, digital and industrial biotechnology, and the vital contribution that these fields have made—and continue to make—to the region's recovery from the effects of the covid-19 pandemic.

This letter outlines the key findings from the Committee's visit which could be factored into the Government's thinking now that it has confirmed its commitment to increasing investment in R&D and [has promised to ensure that an "increased share" of this increase is "invested outside the Greater South East"](#). As you will know, it will be necessary to spend this money wisely to ensure that as much private investment as possible is leveraged from this public investment, which will of course be central to reaching the Government's target of spending 2.4% of GDP on R&D by 2027.

Regional imbalances in R&D spending

As you will no doubt be aware, per capita public spending on R&D is almost five times greater in the South East than it is in the North West. For years, the private sector in the North West has filled this space, with per capita private sector spending being almost three times higher than public.

To be clear, none of the witnesses argued that public money should be re-allocated from one area to another, but, in the context of increasing budgets, they made the case for ringfencing a share of the increases in public R&D spending to address these regional imbalances and to work towards levelling up.

Further, witnesses proposed that, rather than allocating money to individual areas from Whitehall, the Government should devolve R&D spending decisions to the regions, or at least engage in co-creation with local decision-making bodies in the allocation of funds. As Professor Richard Jones put it:

The argument for devolution or co-creation—because we should work with central Government agencies on doing this—is the extra knowledge that we can bring to bear on it. We can then combine that with the other capabilities that local government can have [...] The benefits really come about from having local knowledge. What we want to do is to build an innovation ecosystem to support existing innovators.

Chris Oglesby added to this, calling for a “collaborative approach between place and central Government” while warning against landing money in a “sniper fashion in a particular micro-location”. He pointed to the region’s record of health innovation, attributing this to Greater Manchester’s devolution deal with the Government.

Indeed, witness Dr Marianne Sensier—a researcher at the University of Manchester—pointed to an example of what could be achieved through co-creation with a relatively modest amount of money: the Advanced Machinery and Productivity (AMP) Institute, being set up in Rochdale, which is led by the National Physical Laboratory, the Strength in Places Fund (SIPF), Rochdale Development Agency and some support from the Greater Manchester Combined Authority. Describing the initiative as an answer to “the demand for help for that industry to diversify ready for this century”, the groups behind it came together, she said, because “they know this training and the skills needed in this pipeline are lacking”. The [AMP Institute will be](#) “centred around existing capabilities and research excellence across the North of England and reaching across the wider UK”, aiming to “establish and develop economic growth in the design, development and manufacture of advanced machinery and robotic systems”.

Professor Richard Jones also remarked that, although the SIPF is a “good fund”, the “problem” with it is that it is “very small”, comprising “only a few hundred million out of a UKRI budget that is £8 billion or so”.

On the question of whether ringfencing funding to address regional imbalances would contravene the Haldane Principle, Professor Jones was clear that there was nothing stopping the Government from directing funding towards strategic priorities, as it has with Net Zero, for example.

The Committee encourages the Government to consider devolving decisions on where and how increased R&D funding should be allocated, or how co-creation with local decision-making bodies in the allocation of funds could work, so that it can be targeted most efficiently and effectively, drawing on local expertise. In addition, the Government should review whether the size of

the Strength in Places Fund is commensurate with its ambition to ‘level up’ the UK.

Commercialisation

The [Innovation Strategy](#) rightly recognises the need to facilitate the commercialisation of research to meet a huge variety of economic and social goals. The North West and Greater Manchester in particular is a UK-leader in this area. The University of Manchester’s Professor Luke Georghiou pointed out that Golden Triangle spin-outs get “probably 50 times as much investment” as their North West counterparts, despite the latter producing “as many [spin-outs] as they do”. Three of the region’s universities (Manchester, Leeds and Sheffield) have launched their own ‘spin-out fund’ to address this: [Northern Gritstone](#).

Looking beyond the university sector, Chris Oglesby pointed to examples of local innovation, claiming that because “so much of what happens here ... is led by the private sector, it goes under the radar”. That is in spite of the fact, he claimed, that “we have more unicorns per capita in Greater Manchester than anywhere else in Europe”. Thus, he argued that:

The capability is here, the companies are here; we just need the recognition of that and for the region to be viewed as a place of excellence, and then to close that disparity in the region as well.

In seeking to distribute an “increased share” of R&D spending outside the South East, the Government should also look to ensure that incentives for the commercialisation of research, for example university ‘spin-outs’, are evenly distributed across the UK.

Small and medium sized enterprises (SMEs)

Finally, witnesses were keen to stress that a disproportionate share of SMEs make up the North West’s economy. This, according to Chris Oglesby, limited the scope for Government collaboration. As a result, the region has, according to Mr Oglesby, developed a keen sense of the aggregate needs of its smaller businesses, enabling it to “develop programmes that then will satisfy those”, which further strengthens the argument for devolution or co-creation.

One particular problem which came to light through this evidence was the need for increased awareness of R&D tax credits for SMEs. Witnesses also explained that, currently, SMEs have to go through third-party companies, which, according to witness Simon Cohen, CEO of SME Innovate Pharmaceuticals, “take up to 30% of your R&D tax benefit as their fee”. He argued for measures to ensure that R&D tax benefits are spent entirely on R&D. Witnesses felt that, without simplification of the process, these problems would persist.

We look forward to seeing the outcome of the [consultation on R&D Tax Reliefs](#), which has now closed, and encourage the Government to consider whether changes could be made to simplify the application process. This

would help to ensure greater participation from SMEs and that the vast majority—if not all—of the relief is spent on R&D.

We would be grateful for your reflections on the points raised and an indication of any action the Government will take by Tuesday 30 November.

I am copying this letter to the Parliamentary Under-Secretary of State for Levelling Up, The Union and Constitution, Neil O'Brien MP.

As is usual with the Committee's correspondence, I will place this letter and your response in the public domain.

With best wishes,

A handwritten signature in black ink, appearing to read 'Greg', written in a cursive style.

Rt Hon Greg Clark MP
Chair