

## Written evidence submitted by the UK Innovation Districts Group (PEG0113)

### **Subject: Written submission to the call for evidence - Post-pandemic economic growth working group**

To the post pandemic growth committee,

As chair of the [UK Innovation Districts Group](#) I am delighted to be able to submit this response on behalf of our members.

The UK Innovation Districts Group (UK IDG) is a peer network of thinkers and doers formed by five self-defined UK Innovation District and Knowledge Quarters. Together, the UK Innovation Districts Group represents leading innovative places in the UK where cross-sectoral partnerships are tackling some of society's biggest challenges. The group aims to bridge academic research, think tanks and government policy with practitioners, investors, businesses and innovators across every scale and sector. Collectively we hold a shared purpose to drive place-based long-term inclusive and sustainable growth.

We are grateful for the opportunity to feed into the committee's vital work and keen to ensure policy and practice meet for maximum effect in these unprecedented times.

As such, UK IDG would like to focus on the following 4 priority questions:

1. Is the Industrial Strategy still a relevant and appropriate vehicle through which to deliver post pandemic growth?
2. How should regional and local government in England, (including the role of powerhouses, LEPs and growth hubs, mayoralities, and councils) be reformed and better equipped to deliver growth locally?
3. What lessons should the Government learn from the pandemic about actions required to improve the UK's resilience to future external shocks (including – but not limited to – health, financial, domestic and global supply chains and climate crises
4. What role might Government play as a shareholder or investor in businesses post-pandemic and how this should be governed, actioned and held to account?

We have drawn on the experience of UK IDG partners and published policies to develop our response. This is necessarily a summary of our thoughts and we welcome the opportunity to discuss this with you further.

#### **1. Is the Industrial Strategy still a relevant and appropriate vehicle through which to deliver post pandemic growth?**

- The Industry Strategy process made a valuable contribution to the development of local economic policy. The development of the Local Industrial Strategy (LIS) galvanised partners and their resources around key challenges facing our cities and their hinterlands.
- The relationship between the LIS and the Strategic Economic Plan (SEP) has always been challenging. Whilst in many ways they are complimentary, their separation has been problematic.
- Where our members are operating in devolved regions, with mayoral combined authorities, the SEP has tended to have primacy, albeit overlaid with the Mayoral CA priorities.

- The precursor to the IS process; the development of the Science and Innovation Audits (SIA), although not mandatory, did prove to be an important mechanism to ensure that there was some honesty about each area's real strengths and consequently greater consensus about where much needed investment was to be targeted.
- For example, Liverpool implemented a place-based SIA process that focussed on analysing the local strengths and (crucially) identify mechanisms to realise their potential. This approach has been so successful that Liverpool, Manchester, Cheshire have agreed to a 'one place' strategy for growth and investment. The approach recognises the individual strengths of each place but markets the whole, to ensure the benefits derived from investment are greater than the sum of the parts.
- We believe the focus on themes not sectors should be maintained. The recent report by Nesta (Innovation after Lockdown) also supports this point and we recognise and agree with the 'societal themes' such as climate change and ageing, that Nesta consider to be an important focus for investment in innovation going forward.
- An important outcome of such an approach will be much greater political buy-in to investments in innovation where the benefits are perceived to be distributed more evenly across local economies and communities.
- We believe that the UK IDG is well-placed to help shape the next iteration of these industrial strategies. Innovation Districts, by definition, only succeed with a common purpose; based on local strengths and well-developed partnerships. UK IDG can provide a brokering role; convening different regional and sub-regional interests to ensure complimentary activity and collaboration, where this is appropriate, against the necessary backdrop of commercial interests.
- As identified in our 2018 report "UK Innovation Districts and Knowledge Quarters: Driving more productive growth", the main conclusion from our research suggests government should prioritise place-based investment in innovation districts to boost productivity, support inclusive growth and deliver the Industrial Strategy.
- In short, UK IDG support the Industrial Strategy as a necessary and relevant tool but would encourage a strengthening of the big-picture societal challenge-oriented model developed in 2017 Industrial Strategy. The Covid crisis itself has exposed extra challenge dimensions such as health and the digital divide which need to be addressed, but it certainly hasn't reduced the need for a core focus on the previously identified grand challenges. If anything, it has highlighted the need to increase a more co-ordinated, diligent and explicit focus on these societal challenges.

## **2. How should regional and local government in England, (including the role of powerhouses, LEPs and growth hubs, mayoralities, and councils) be reformed and better equipped to deliver growth locally?**

- UK IDG would urge Government to go further and faster with devolved responsibility for innovation budgets and to ensure public expenditure on R&D is more transparent.
- Very little innovation funding is geographically targeted, despite the levelling-up agenda. The Strength in Places Fund represents a very small part of the governments overall R&D budget, but as Nesta points out, 'is not well-equipped to target funds at places with innovation potential starting from a low base'.
- University expenditure of public R&D funds is significant and there needs to be much greater efforts to ensure this is targeted to most effect. For example, in Sheffield City Region, around £325m is spent on R&D in 2018/19 and 65% of that is spent by the University of

Sheffield. The majority of private sector R&D is spent on helping high-tech 'frontier' firms in the STEM-related sectors to translate basic research into world-beating products.

- Other initiatives, such as The Catapult network and the Business Basics Fund have been designed to help SMEs adopt innovation, but in reality, tend to work with leading-edge SMEs. The Business Basics Fund is designed to support innovation diffusion amongst SMEs with low productivity. But only £9.2m has been allocated to this fund (the Catapult budget was £237m in 2018).
- Business support organisations, operated by city region local authorities, are well placed to administer devolved funds. They have the expertise to ensure adequate levels of transparency of decision-making and accountability for expenditure.
- Initiatives such as the recent BEIS supported REAP UK pilot (Regional Entrepreneurship Acceleration Programme) are welcomed. Future iterations of this and similar programme interventions should include a range of scales and delivery structures; for example Innovation districts at a sub-regional or even sub-city scale would be a valuable delivery vehicle to develop deep and targeted economic ecosystem stimulation.

### **3. What lessons should the Government learn from the pandemic about actions required to improve the UK's resilience to future external shocks (including – but not limited to – health, financial, domestic and global supply chains and climate crises?)**

- If we seek to improve wages and so living standards (and thus resilience), we need to look at how innovation policy can enable improvements in productivity and so competitiveness across all companies.
- Covid has exposed the fragile nature of the employment base in some of our English regions and we need to look at how innovation can help to improve productivity in sectors vulnerable to shock.
- We have seen that many places biggest assets (such as the arts, cultural and entertainment sectors) have become their biggest concerns and so we need a balanced response. One that shields the vulnerable assets whilst using the more resilient assets (like innovation-led sectors) to drive growth through 'shovel-ready' capital programmes. Liverpool City and City Region have proposed a number of schemes, focused on its strengths in science and tech, film and culture, with the majority located in its KQ Liverpool Innovation District.
- Innovation practice needs to extend to the foundational economy and across the public sector if we are to realise the full socioeconomic benefits that it can enable.
- This approach also needs to recognise the need for two planning horizons; one that focusses on the next 18 to 24 months and one that focusses on the next 10-20 years. Both together will ensure a balanced approach, guarding against the risk of making investments in one sector or place, at the expense of another.
- In the short-term, sectors most at risk (and where many people are employed) include public services (particularly health and social care), retail and warehousing and, the arts where many people are self-employed. Innovation in these sectors will not necessarily be about the implementation of technology solutions; it will be about innovations in process, supply-chains and business models.
- Improvements in productivity in these sectors need to be coupled with an equal focus on innovation in the 'frontier' sectors of science and technology. Short-term we know that academic institutions are facing significant (30%+) cuts in revenue funding and need to be supported with funding in core research activity. Long-term we know they will come back strongly. When they do, we need to double-down on our specialisms and market

differentiators but also recognise the need to invest in innovation that will have wider societal benefit as discussed already.

Investment in innovative activity should not be regarded as a luxury. Appropriate innovation needs to be seen as a central plank of post-Covid recovery and will greatly support the other vital strands of the recovery plan; attracting and retaining local talent, developing diverse talent pipelines, attracting inward investment; growing SME's and addressing the climate emergency.

#### **4. What role might Government play as a shareholder or investor in businesses post-pandemic and how this should be governed, actioned and held to account?**

- UK IDG is an advocate for placed-based innovation-led economic growth. We would urge Government to devolved and distribute funds and powers and not to (re) centralise controls on the economy in response to this short-term crisis. We might go further and suggest that City Deals are reviewed to ensure adequate priority is given to recovery and to use the Deals as mechanisms for ensuring partnerships are strengthened where necessary to drive delivery.
- City regions are well placed to act as the gatekeepers for Government funds and we agree with Jim O'Neil and Howard Bernstein's view that a scheme to recapitalise local business may be vital and could be administered at the city region level.
- Innovation Districts would be well placed to help sift what they term the 'good and 'bad' investments and also to support the development of start-up and business accelerators which will supply new sources of capital growth over time.
- Innovations districts could also act as platforms for administering equity-backed funds. We can see how innovation districts could be converted to act as 'development corporations' by another name, with devolved responsibility for planning and development to provide the infrastructure for business growth. This would work alongside the equity funding as a wrap-around offer to investors. This approach is well illustrated in east London's Queen Elizabeth Olympic Park with the London Legacy Development Corporation steering the area's physical, social, environmental and economic transformation over the last 10 years.

Finally, as a closing remark we would like to reinforce the need for diversity of thought and diversity organisations, of networks and individuals to help inform the future shape of a productive, inclusive and innovation driven economy. We won't be able to achieve the policy solutions we desperately need without understanding the policy problems; and we cannot understand the policy problems without a diversity of voices and experience.

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