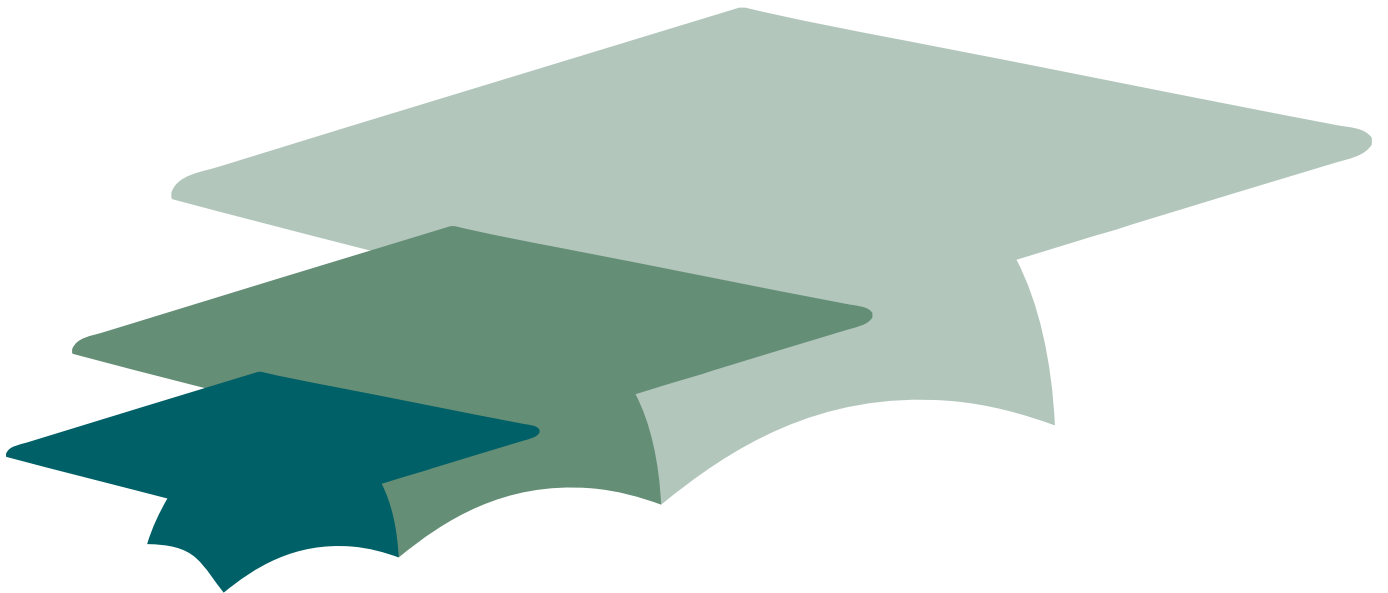


BEYOND BRICKS AND MORTAR BOARDS

UNIVERSITIES AND THE FUTURE OF
REGIONAL ECONOMIC DEVELOPMENT



REPORT

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EXECUTIVE SUMMARY

The major challenge facing policymakers is how to return the economy to growth. A key government aim is to 'rebalance the economy' to be less reliant on public sector jobs, the financial services industry and the Greater South East. Universities have an important role to play in delivering this agenda. They help to shape and develop economic activity both locally and further afield by increasing skill levels, delivering and assisting with industry innovation and attracting investment. They are a critical asset for their local area: an anchor institution that is able to take a long-term approach to economic growth, as unlike businesses they are highly unlikely to relocate. Their role can be particularly important in economically lagging areas.

But the policy landscape, both for economic development and for universities, is changing rapidly. In England, the institutions of economic development have changed, with the demise of the regional development agencies (RDAs) and their replacement with more local, voluntary partnerships between business and local government in the form of local enterprise partnerships (LEPs). Simultaneously, there have been sharp reductions in the funding available for economic development. Under the new system, the emphasis is on collaborating with the private sector in order to support private sector growth and employment.

These changes could present an opportunity for universities to increase their influence and impact on their local economy. But universities are also facing financial uncertainty, with changes to university teaching funding, as well as potential changes in how teacher training and healthcare professional training are delivered. These changes could have implications for universities' ability to perform their economic development role.

This report explores the opportunities for universities to contribute more to their local economy in the new economic development landscape. It also considers some of the obstacles to them doing so. It makes a number of recommendations to universities, the new LEPs and to government for how the contribution of universities can be maximised.

Rebalancing the economy in a new policy landscape

For decades there have been wide and persistent disparities in economic performance across the English regions. In many regions private sector growth has been weak in recent years, and public expenditure has maintained employment. This is no longer sustainable. In the future, the knowledge economy and service sectors are likely to be the main source of employment growth. But the UK faces growing competition from the East; to compete in the global economy, high skills and innovation are going to be essential.

Even before the recession, economic disparities meant the economy was not firing on all cylinders. As a result the UK as a whole is worse off. For example, the UK lags behind major competitors on the amount spent by the public and private sectors on research and development (R&D). If R&D spending in lagging UK regions was brought up to the UK average, the UK's R&D spend to GDP ratio would match that of Germany and the USA.

While the need to rebalance the economy remains, the tools with which to do so are changing. The new LEPs operate on a more voluntary and local basis than the RDAs. But they have no budget with which to fund economic development priorities and some lack administrative support and capacity. The main budget for supporting economic development is the £2.4 billion Regional Growth Fund (RGF), which is focused on private sector job creation in areas reliant on the public sector for employment. It is not a requirement for LEPs to be involved with bids to the fund, and decisions about successful bids are taken centrally. No funding for major economic development programmes will

be decided at a local or regional level, unless this funding comes from local authority resources or private investment. The emphasis is on local collaborations of ‘smart coalitions’ to attract funding and pursue local priorities.

The European Regional Development Fund (ERDF) also remains a vital source of funding for economic development, and has proven an important resource for universities in recent years. Previously the funds were administered by RDAs, who were able to use their match funding to steer funding to meet strategic economic development priorities. Administration has since been re-centralised. Negotiations are currently underway over the 2014 round of European funding, which will focus on ‘smart specialisation strategies’, but this may be steered by an English national strategy, rather than at the sub-national level.

The role of universities in economic development

Universities have a substantial contribution to make to the local economy, acting on some of the key factors that drive growth: skills, investment and innovation. They are also major employers in the local economy, and play a key role in upskilling individuals and attracting talent. The spending power of their staff and students has a multiplier effect throughout the local economy. While some of these effects can be achieved simply by universities being there, they need to take an active approach to maximise their impact on the economy.

At present, universities appear to have a small influence on private sector innovation in general, with a relatively small number of firms interacting with them to meet their innovation needs. However, those firms that do collaborate with universities do seem to show better performance.

Universities have sought to improve their infrastructure for business engagement in recent years, but this has resulted neither in a significant increase in contract research and consultancy income from SMEs nor a substantial increase in delivering workforce development services. These activities have the potential to contribute to a more mixed income base for universities, assisting their sustainability.

University start-ups and spin-outs currently represent a very small proportion of overall start-ups in the economy and have tended to be concentrated in the high value-added science and technology industries. This is crucial for economic growth but is less likely to be associated with significant employment creation.

Student start-ups are also relatively small in number but there has been rapid growth. In 2000, institutions reported 179 graduate start-ups; by 2009 this had risen to 2,045, an 11-fold increase in nine years. Furthermore, in 2000 1.5 per cent of graduates were self-employed six months after graduation; by 2010 this had risen to 4.4 per cent. This is not simply an effect of the challenging graduate jobs market; the figures have been on an upward trend.

Recognising the sector’s diversity

It is easy to make generalisations about the role that universities do and could play in economic growth, but the sector is highly diverse. This section uses cluster analysis, based on publicly available Higher Education Statistics Agency (HESA) data, to explore the way in which different universities place greater emphasis on some roles compared to others with respect to their local economies. Most universities perform multiple roles, but are characterised by the extent to which they tend towards each of the following dimensions below.

- **Skills and knowledge creators:** Characterised by a high reliance on teaching income, but with lower than average levels of engagement with local business. They are generally located in areas of high economic deprivation.
- **University towns:** Rare institutions that generate high levels of income, including significant amounts of research and consultancy income, are important as a local employer and start-up generator but do not have *formal* links with the local business community.
- **Local developers:** Large urban universities who see themselves as having a local leadership role and whose research and consultancy for local firms is important. Students make up a significant proportion of the local population.
- **Investment attractors:** Large universities with less of a local focus than ‘local developers’. These could perhaps be caricatured as a multinational company located within their local areas.
- **Local entrepreneurs:** Geared towards the practical application of academic knowledge, with high levels of local business engagement. They generate economic growth through high levels of start-ups, but are less focused on their civic role.

Thinking about these dimensions provides a useful way of considering how universities can build on their strengths or collaborate with one another to contribute more to the local economy. All of these dimensions should be recognised for their contribution to economic growth.

This analysis also offers a framework for thinking about how different universities might be affected by financial uncertainty caused by changes to the university funding system and broader public spending cuts. Most worrying are the prospects for more economically deprived places that have universities that tend towards the ‘skills and knowledge creator’ or ‘local entrepreneur’ dimensions. Universities that tend towards these dimensions play a particularly significant role in supporting the local private sector, but are also under the most immediate threat as their income tends to be derived more from teaching than research. In particular ‘skill and knowledge creators’ are more likely to be located in areas of high deprivation, making the implications for these areas especially concerning.

Mapping the challenges of the new local economic development landscape

The dismantling of regional structures poses a challenge to universities that have become accustomed to taking their cue for involvement in their local economy from RDAs. Nonetheless, there is evidence that universities are adapting to the new economic development landscape. Our analysis shows universities have been directly and indirectly involved in securing RGF funding for their area.

Our analysis also finds that universities are well represented on the boards of the new LEPs, and many LEPs have defined a strategic role for universities in delivering economic growth. There is, however, a tendency to focus on universities’ contribution to skills, and to neglect other dimensions of their economic growth offering. LEPs should reflect on the dimensions outlined in chapter 3 to consider how different universities in their area might be able to contribute more to economic growth.

The reduction in economic development funding is apparent, and competition to secure it strong. While the ERDF has been an important source of economic development funding for universities in the past, the abolition of the RDAs has removed a major source of match funding. As a result there is currently over £1 billion of unallocated funding in the

2007–2013 round. If this money is not allocated by 2013, most of it will revert back to the Treasury.

While LEPs are held up as an example of the government's localism, there has been a centralisation of economic development policy and funding since the abolition of the RDAs. For example, decisions about RGF bids are centralised, and are not influenced by local economic development priorities, only the desire to create private sector employment. Furthermore, innovation policy and funding have also been centralised. The government's new strategy is focused on enhancing national innovation capabilities and lacks a spatial element. Innovation is a key driver of economic growth and productivity and it must form part of a sub-national economic growth strategy. Centralised funds present a challenge to ensuring that universities contribute to more even economic growth across the country. To merely invest in the strongest areas risks reinforcing economic inequalities.

Identifying new opportunities

There are, however, opportunities for universities to expand their economic growth contribution without committing to large amounts of additional expenditure. Indeed, in a time of economic uncertainty, as funding policy for universities changes, engagement with business could offer universities an opportunity to diversify their income streams while also contributing to economic growth.

Universities need to work on initiatives that lower the cost of business engagement for both potential business partners and the university, and to extend collaboration with SMEs, especially in the service sector. University-run business clubs and research matchmaking services are ways of expanding and maintaining a network of local business partners. Experiments with open innovation are important in this respect.

As the economic development structures change, there is an opportunity for some universities to play a larger role in the provision of business support services and local economic intelligence. Furthermore, the new LEP structure could act as a forum within which university and business collaboration can be facilitated.

Recommendations

Based on the analysis in this report, we make a number of recommendations aimed at government and universities. We also make recommendations targeted at the new LEPs as they develop.

To support university involvement in economic growth, the **government** should:

1. Reverse the centralisation of innovation funding. Funding should be devolved down to the sub-national level to allow areas to be agile in reacting to new opportunities, to encourage spatial specialisation and to support local innovation 'ecosystems'. As the main vehicle for driving economic growth at the sub-national level, this could be a future role for LEPs.
2. Ensure that the distribution of post-2013 European structural funds corresponds to local economic priorities and opportunities in order to deliver coherent local economic development. Rather than pursue a national 'smart specialisation strategy', responsibility for these strategies should be decentralised to the sub-national level. As the main vehicle for driving economic growth at the sub-national level, LEPs should coordinate this strategy, with funding and support to fulfil this role where required.
3. Be aware of the risks to some local economies from the reduction in university funding and policy changes that might affect student numbers and the financial sustainability

of some institutions. If necessary, they should be ready to act to support institutions to diversify their income base in order to be sustainable, particularly where they are the only university in an economically deprived area.

To expand their economic contribution, **universities** should:

1. Continue to build on the ways they already contribute to economic growth by:
 - continuing to expand and improve businesses engagement, in particular by marketing themselves more effectively to businesses that may not have considered university collaboration before
 - finding routes for better integration of local businesses into the university, for example through initiatives like business clubs and a matching service between local business research needs and the skills and interests of students and staff
 - continuing to improve the marketing of their capabilities in the area of workforce development to increase university share of the market and diversify their income
 - increasing the overall number of spin-out firms, and in particular increase the proportion of spin-outs in fields other than science and technology (the latter will be crucial for innovation, but spin-outs in the service sector are more likely to create jobs)
 - working with the Higher Education Funding Council for England (HEFCE) and other key stakeholders to evaluate the impact of student enterprise support schemes, to identify the best use of funding in this area.
2. Working through Universities UK, universities should champion their role in winning RGF bids and the Department for Business, Innovation and Skills (BIS) should actively promote university involvement in RGF bids among potential bidders, to support further university engagement with business innovation.
3. Ensure their voices are heard as part of the debate about post-2013 EU funding, to ensure it remains a resource they can use to influence economic growth in their area. They should also continue to work through their local LEP and with other partners to bid for the current round of ERDF funding to support economic development activities in their local area.
4. Be proactive in seeking out opportunities to play a part in the governance of local institutions and the delivery of public services. The Work Programme is a major area that universities might increase their involvement in their local economies and their relationships with local employers.

As **LEPs** continue to develop they should:

1. Encourage and challenge universities in their area to actively contribute to economic development, and acknowledge that their contribution stretches beyond skills provision.
2. Encourage collaboration between universities, so each institution plays to its strengths while ensuring all dimensions of the university contribution to economic development are actively addressed in the LEP area.
3. Provide a forum within which business and university collaboration can flourish. They should seek to facilitate greater interaction and understanding between the two sectors in order to draw on the full range of contributions that universities can make to the local economy.

1. INTRODUCTION

How to return the economy to growth is the major challenge facing policymakers up and down the UK. A key government aim is to ‘rebalance the economy’ away from an overreliance on public sector jobs and towards private sector jobs; away from an overreliance on the financial services sector and towards manufacturing; and away from an overreliance on the Greater South East and towards other parts of the country.

Universities have a key role to play in delivering on this agenda. They contribute to the economy in a number of ways, including increasing skill levels, delivering and assisting with industry innovation and attracting investment. Through these activities they help to shape and develop economic activity both locally and further afield.

Unlike other organisations, universities are not mobile. Their long-standing presence in a place means they can play a long-term role in creating the conditions for economic growth and act as an anchor organisation, contributing to the creation of sustainable institutions for economic development. However, different universities interact in different ways with the economy of the place they are located in, and the extent of their relationships and influence on local stakeholders varies from place to place. Under the last government there was a ‘filling in of the map’, with the creation of new institutions in areas where there was not a university previously, such as the University of Cumbria.

But the institutional landscape and policy approach to economic development has changed dramatically since the Coalition government came to power in 2010. The demise of the RDAs, and their replacement with more local voluntary partnerships in the form of LEPs, marks a potential opportunity for universities to increase their influence and impact at a sub-national level. As the system transitions from one approach to another, boundaries will be re-drawn with other local and regional institutions in terms of the contribution to economic development. This is particularly important given the changes underway to the structures through which funding and investment flows into regional economies, and the part that universities can play in facilitation. Under the new system, the emphasis is on collaboration with the private sector in order to support private sector growth and employment.

Alongside these changes to regional economic policy, there have also been considerable changes to the way in which universities are funded, and the wider economic context may also have implications for universities’ roles. Taken together these changes have implications for how universities actively engage with economic development in their local area. While there is an opportunity for universities to increase their influence in economic development, there are also substantial challenges. Financial uncertainties brought about by the changes to university teaching funding through the recurrent block grant distributed by the funding councils, as well as the potential changes in how teacher training and healthcare professional training are delivered, present the risk that universities’ economic development role becomes more difficult to perform.

With this context in mind, Universities UK asked IPPR North to consider the changing role of universities in economic development in their locality. This report aims to explore the role of universities in relation to regional economic development within the emerging policy framework of localism, LEPs, and the aspiration to rebalance the economy. It is divided into five chapters:

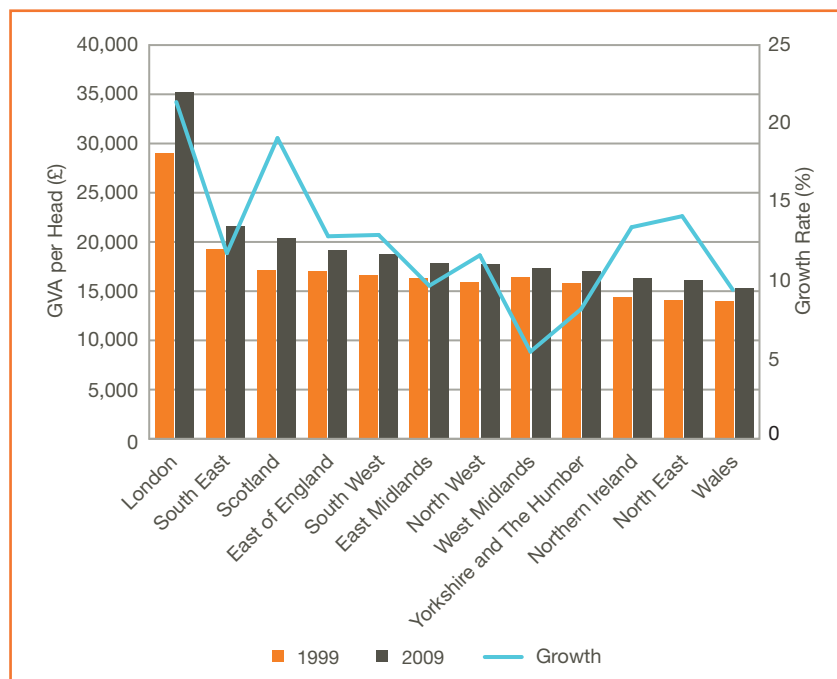
- The remainder of this introduction outlines current economic differences between the regions of England, and changes to regional policy.

- Chapter 2 summarises the evidence base for the different ways in which universities contribute to economic development in their locality.
- Chapter 3 considers the diversity of the university sector, and how different types of institution contribute to economic development in different ways.
- Chapter 4 maps the challenges of the new local economic development landscape.
- Chapter 5 in turn considers the opportunities presented by the new economic development landscape.
- Chapter 6 summarises the report recommendations.

1.1 Why rebalance the economy?

Uneven development across the UK regions existed long before the economic turmoil of recent years. As figure 1.1 shows, despite 14 years of proactive regional policy, disparities in productivity are still apparent: over the 10-year period from 1999 to 2009, regional productivity differentials mostly widened as the growth in high productivity regions tended to be greater. This is due partly to sectoral changes: over time, banking and finance have grown and manufacturing has continued its long term decline. Redressing the UK economy's overreliance on the Greater South East has become one interpretation of the government's ambition to 'rebalance' the economy.

Figure 1.1
Gross value added per head, 1999 and 2009 (£)



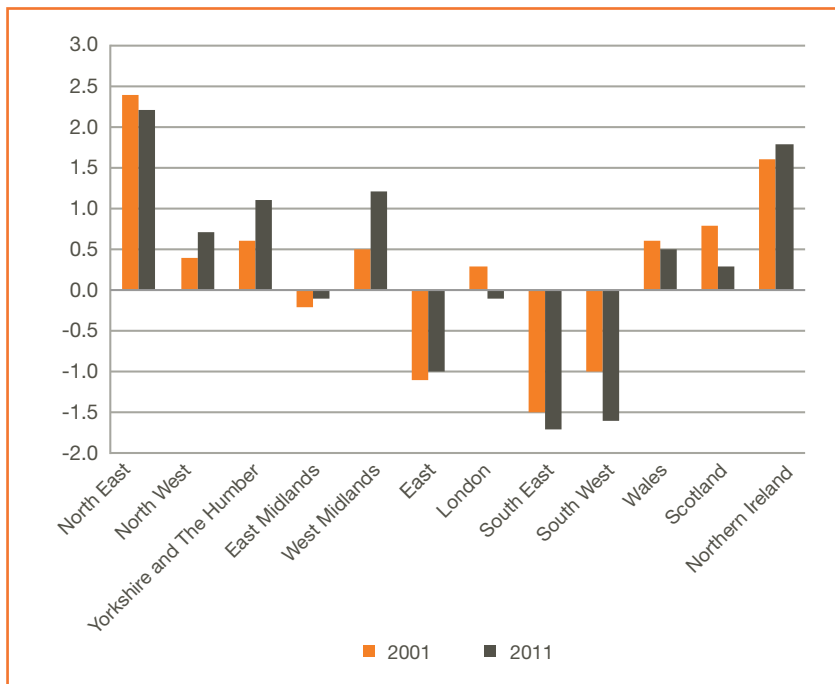
Source: ONS 2011

Likewise, in the labour market over the last ten years, the relationship between each region's unemployment rate¹ and the overall UK rate has remained broadly the same, as illustrated in figure 1.2. This pattern is likely to get worse: employment in the regions has been maintained during the economic downturn due to the stability or growth in public sector employment. Some areas are now highly dependent on public sector employment which leaves them at risk when public spending is cut. The effect on employment from the

¹ As measured by claimant count.

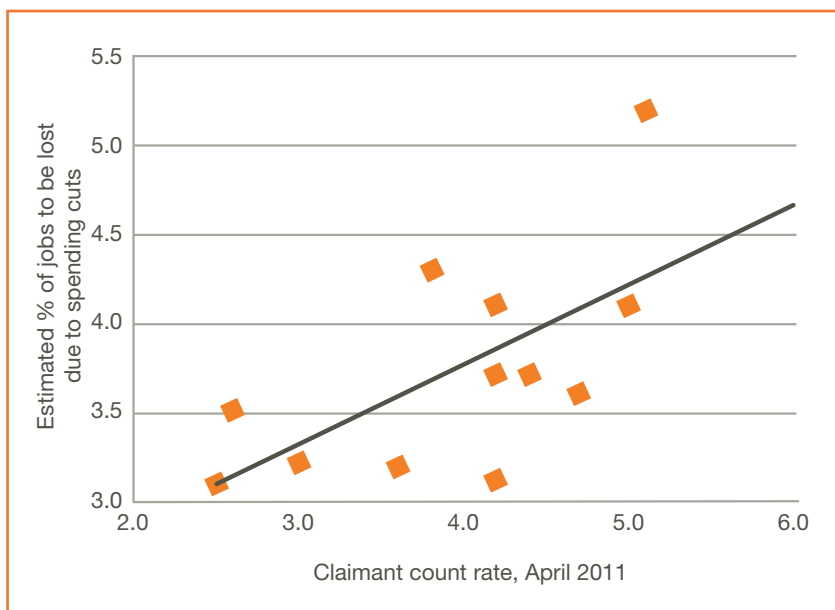
government spending cuts is being felt disproportionately by those regions that already have higher unemployment (Cook 2011), as figure 1.3 shows.

Figure 1.2
Difference between regional unemployment rate and national unemployment rate, 2001 and 2011



Source: NOMIS

Figure 1.3
Correlation between claimant count rate and estimated job losses from public spending cuts



Source: NOMIS; PwC 2010

In addition, inequality in skill levels between regions has increased and the difference between high and low skill areas is large. The UK labour market is increasingly polarised

between high and low skill occupations; it has been 'hollowing out'. This, combined with the increasing divergence between areas' skill levels, could serve to reinforce spatial disparities, with some areas trapped in a low skill equilibrium.

Figure 1.4
Highly skilled workers by region, 2004–2010
(% NVQ4+ qualified)



Source: NOMIS

These regional disparities in economic performance matter. The presence of underperforming areas means the UK overall is not performing to its maximum potential. Boosting economic performance in lagging areas will be of benefit to the whole of the UK.

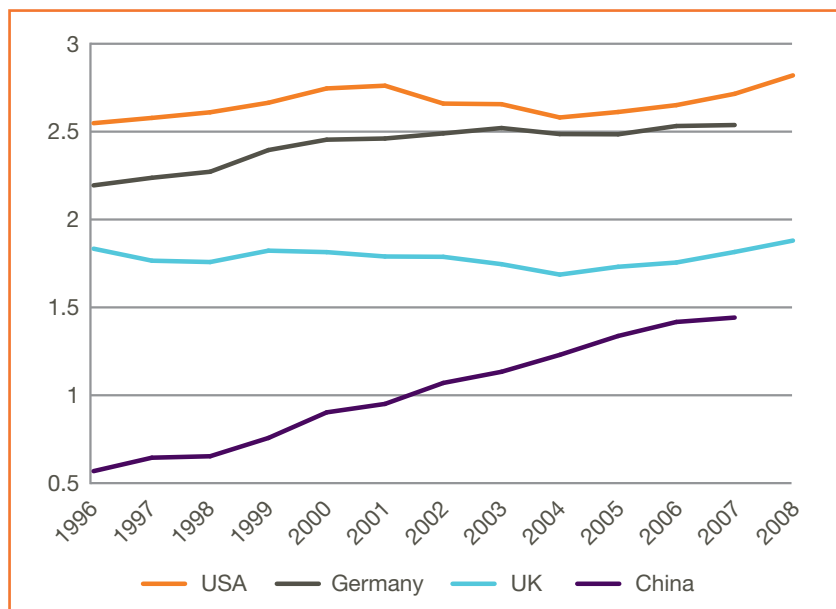
To provide an example of this, consider the UK's R&D record. R&D by research organisations, universities and private sector companies plays a crucial part in developing the industries of the future and bringing forward innovation. It is important to note that R&D investment comes from both the public and private sector and that R&D funding from both sectors contributes to economic growth.

But taking public and private spending on R&D together, the UK spends less on R&D than its competitor nations. China, seen as a country of low-cost manufacturing by many, increased the share of R&D in its economy by almost threefold in the ten years from 1996–2007 (see figure 1.5). Within the UK, the East of England stands out as the centre for R&D spend in the UK. However, to close the gap with our competitors, the UK needs to close the R&D/GDP ratio between regions within the UK. If the below average regions were brought up to the current average UK R&D/GVA ratio, the UK's R&D/GDP ratio would match Germany and the USA.

A key challenge to improving the UK's R&D/GDP ratio is to encourage the private sector to invest more in R&D. At present, about 25 per cent of UK R&D spending is from the higher

education sector, while around 62 per cent derives from business enterprise R&D. But the proportion of total R&D expenditure that derives from business enterprise is higher in both Germany and the USA. Furthermore, in the UK too few sectors match the intensity of R&D investment seen in our competitor nations, with only the pharmaceutical, aerospace, and information and communication technology sectors achieving comparable levels (BIS 2011a). To close the international R&D investment gap there needs to be a higher level of R&D investment in lagging regions and across a wider range of sectors of the economy.

Figure 1.5
R&D expenditure,
selected competitor
nations (% of GDP)



Source: World Bank

Too often innovation is thought of only in relation to sectors like high-value manufacturing. While this sector is expected to have an important part to play in future economic growth, it is unlikely to be a major employer. In terms of employment, sectors like professional services are expected to be important for future jobs (Cox 2012, forthcoming). High-skill knowledge-based industries, such as the creative industries, are also expected to be a source of economic growth (UUK 2011). Innovation in these sectors will also be essential.

1.2 Recent developments in regional economic policy

Regional economic policy is a major vehicle for seeking to close the economic gaps highlighted in the previous section. In Scotland, Wales and Northern Ireland, the regional policy structures remain largely unchanged. However, England is facing major changes in how regional policy is delivered. The previous policy framework had RDAs as the main delivery structures for regional policy and economic development funding. RDAs will be abolished completely by March 2012. RDA functions such as innovation, tourism, international trade and inward investment have been moved to central government and perhaps most importantly, the regional development budget has also been centralised and cut by two thirds.

In England, public sector funding for regional economic development will now be delivered via bids to the RGF and through centralised programmes such as enterprise zones, growth hubs, and technology and innovation centres (now called catapult centres).

LEPs have also been introduced at the sub-regional level. The move away from regional structures is consistent with a more general emphasis on localised solutions to public policy problems.

Local enterprise partnerships

LEPs are voluntary partnerships between local authorities, private sector representatives and other key stakeholders, such as those from higher and further education, and the voluntary sector. The boards are led by private sector representatives (unless there is an elected mayor, in which case they can chair the LEP). Their role is to identify local economic priorities and to provide strategic leadership on local economic issues, to lead the rebalancing of local economies away from a reliance on the public sector and towards the private sector. Specific areas where LEPs might get involved include planning and housing, local transport and infrastructure, employment and enterprise, and the transition to the low carbon economy.

‘Local enterprise partnerships are led by local authorities and businesses across natural economic areas. They provide the vision, knowledge and strategic leadership needed to drive sustainable private sector growth and job creation in their area’

BIS 2011b

LEPs are not mandatory: it is up to local authorities and their partners to agree whether they want to form a LEP or not. Furthermore, the geography of a LEP is defined by local stakeholders, rather than centrally imposed, although central government did refuse to endorse some early LEPs on the grounds that their boundaries did not correspond to a functional economic area. Some areas are involved in more than one LEP; indeed, 11 per cent of local authorities are a member of two LEP areas.

LEPs will receive minimal central support beyond some start-up costs and the opportunity to bid for a small budget for research; local authorities and private investors are expected to put in most of the funding. There are, however, some concrete benefits from forming a LEP. For example, only LEPs can bid for areas to become enterprise zones and submit bids to the Growing Places fund to kickstart stalled developments.

Compared to RDAs, LEPs are less institutional and bureaucratic in form. They are expected to be fleeter of foot and to collaborate and form smart coalitions with other organisations – including universities – to respond to local priorities and proactively maximise local economic opportunities.

1.3 Funding for economic development

Not only has the institutional structure of economic development changed, so too has the funding regime. RDA funding has been replaced by a centrally managed budget, the Regional Growth Fund (RGF). Initially announced as a £1 billion fund over two years in the 2010 emergency budget, the size of the fund has since increased and its time horizon extended to 2015. In the 2010 spending review, a further £0.4 billion was announced for the fund, and a further £1 billion in the Chancellor’s 2011 autumn statement. The RGF budget over four years is similar to that of the RDAs over one year prior to the budget cuts.

Decisions about what projects will be funded have also been centralised. The successful bids are chosen by a ministerial panel, supported by an independent advisory panel. They do not have to pay regard to the priorities of LEPs in this process. The RGF is seen

by government as key in rebalancing the economy; not between different industries, but between the public and private sector.

Bids are supposed to set out the extent to which people living in areas where the local economy is reliant on the public sector will benefit, and demonstrate how the bid will create sustainable private sector-led growth and prosperity, and lever in private sector funding. There is a strong emphasis on the extent to which projects will create jobs. Any private sector organisation or public-private partnership is eligible to apply; public sector-only bids are not eligible. LEPs are seen as a coordinating body for bids, although their involvement in or support for a bid is not a requirement.

Beyond the RGF, the European Regional Development Fund (ERDF) is currently in the middle of its 2007–2013 funding round. The ERDF is an EU fund that aims to reduce economic disparities by safeguarding jobs and supporting economic regeneration. The funding is targeted at less prosperous areas. In England, €3.2 billion is being invested between 2007 and 2013. However a key challenge in the current spending round is underspend. Presently around £1 billion of ERDF funding for the English regions is uncommitted, with nearly £250 million uncommitted in Yorkshire and the Humber alone in September 2011. Much of this underspend is in priorities 1 and 2: innovation and enterprise.

All EU funding has to be matched with local contributions. In the past, the RDAs were a major source of match funding but their demise, twinned with the pressure on public sector budgets, has resulted in significant underspend. If this money is not drawn down, two-thirds of the underspend will automatically revert back to the Treasury.

In addition, the ERDF was managed previously by the RDAs; the administration of the fund has now been moved back to central government. There is a risk that this will weaken the depth of knowledge about regional circumstances, as in the past RDAs were able to steer ERDF funding towards regional economic development priorities by what they chose to match fund.

Negotiations are currently underway for the 2014–2020 EU funding period. This will focus on the concept of ‘smart specialisation’. Areas will be expected to develop a smart specialisation strategy, which identifies potential areas for growth that are knowledge intensive, and sets out a strategy for building capacity around them. These assets should be firmly rooted in the existing knowledge assets of an area, rather than seeking to follow national and international trends for growth areas (McCann and Ortega-Argilés 2010). However, in England it is not yet clear how a smart specialisation strategy will be developed. Many LEPs are currently looking at what a smart specialisation strategy for their area would look like, although it is anticipated that England will have a national strategy.

1.4 Summary

- There are wide and persistent disparities in economic performance across the regions of the UK. Regional private sector growth has been weak in recent years; public expenditure has maintained employment in most regions: this will no longer be sustainable.
- While the government talks about rebalancing the economy, any aspiration about reviving the manufacturing sector needs to be viewed within the context of the long-term decline of the sector. The knowledge economy and service sectors are likely to remain the main sources of employment growth, but UK faces growing competition from the East.

- Regional economic development policy in England is changing: RDAs are being abolished and smaller-scale LEPs are being formed. Whereas RDAs funded regional economic development projects, LEPs have no budget with which to fund such projects: no funding for major economic development programmes will be decided at a local or regional level, unless this funding comes from local authority resources or private investment.
- Following the abolition of the RDAs, the RGF is the major source of domestic funding for economic development. The fund invites private sector organisations to bid to the £2.4 billion fund with the emphasis on funding projects that create jobs and shift economic output and employment away from the public sector.
- The ERDF also remains a vital source of funding for economic development, but around £1 billion of the 2007–2013 round is yet to be allocated, suggesting there will be a significant underspend. Negotiations on how to manage the post-2013 round are underway. It is not yet clear whether these will be managed through a national or sub-national strategy.
- The new approach to economic development emphasises collaboration across stakeholders and the formation of ‘smart coalitions’ to attract funding and pursue local priorities.

2. UNIVERSITIES AND REGIONAL ECONOMIC DEVELOPMENT: THE EVIDENCE BASE

Universities play a unique and multi-faceted role in economic development. Their contributions include:

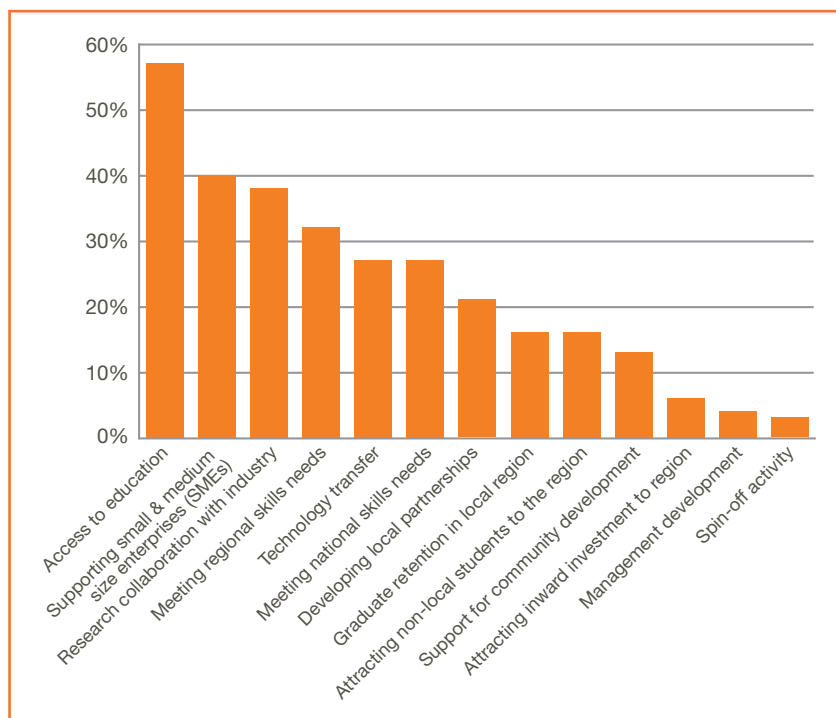
- direct and indirect expenditure effects as a result of a university's roles as an employer of staff, an investor in infrastructure and a purchaser of local goods and services, both directly via the university's budgets and indirectly via student and staff expenditure
- provider of skills and skilled workers
- attracting inward investment
- facilitating the innovation ecosystem
- supplying workforce development services to local firms
- business start-ups and commercialisation of research
- civic leadership.

Each of these roles is explored in turn in this chapter.

By providing a geographically defined 'brand', universities also act as gateways between the regional and the global economy, especially given the international nature of both universities' workforce and the student body. In this sense universities provide a way of raising the profile of an area internationally.

Universities themselves are well aware of the roles they play in the local economy. Figure 2.1 below shows that universities see a combination of skills and knowledge provision and collaborating with businesses as important in terms of their contribution to economic development.

Figure 2.1
University responses to the question: 'In which areas do you see the HEI as a whole making the greatest contribution to economic development?' (% of universities)



Source: HE-BCI survey 2009/10²

² The higher education business and community interaction survey (HE-BCI) is an annual survey that examines

This section explores in more detail the evidence base for the different ways in which universities contribute to economic development.

2.1 Direct and indirect expenditure effects

Perhaps the largest and most visible impacts of universities on local economies is the effect of local expenditure associated with the university: direct employment of university staff, the investment in buildings and infrastructure, the personal expenditure of students attracted to the area, and the multiplier effect that this expenditure has throughout the economy.

Work by Universities UK has demonstrated that universities have a significant economic impact on regions. The sector employs more than one per cent of the UK's total workforce and for every 100 full-time jobs within universities more than 100 other full-time equivalent jobs are generated through knock-on effects. For every £1 million of university output a further £1.38 million of output is generated in other sectors of the economy (UUK 2009).

Gross vs net effects

However care must be taken with these estimates: much of the estimated economic impact of universities on local areas is due to the direct effect of public expenditure and the multiplier effect of university employment and student expenditure through the local economy. The role of universities in regional economic development may be overstated therefore, if account is not taken of the alternative uses of public expenditure and the local economic resources (Hermansson et al 2010). Moreover, the level of direct and indirect expenditure due to a university may support demand in a local economy, but does not necessarily support *growth* in local economic output and productivity.

Furthermore, in areas where universities are large employers relative to the local labour market, and university and student expenditure is a key component of local demand, there is a risk that any reduction in university funding and student numbers will also multiply through the economy. It is important to emphasise, however, that universities generate over a third of their funds from non-public sources and this includes over £2.9 billion in export earnings. If factors like expenditure by overseas students are included, this figure rises to £8.2 billion (UUK 2011). In this sense universities can act much like a large company in the local economy. However the importance of different sources of funding varies widely from university to university and therefore changes in funding are likely to affect universities, and by extension local economies, differentially (a theme further explored in chapter 3).

2.2 Supplying skills; attracting skilled workers

Universities can be a valuable resource for upskilling the local population. Widening participation programmes increase the total skill levels in the regional economy, pushing up the overall proportion of highly skilled people and helping to reduce inequalities (Brennan et al 2006).

Universities attract those with skills (staff and students) and the potential to gain knowledge and skills (students) to an area, independently of the local skills profile and economic vibrancy. Universities can therefore act as a means of increasing the local skills base even in the absence of a strong local economy that might demand those skills, and so set in motion the virtuous circle of a highly skilled workforce attracting investment,

the exchange of knowledge between universities and the wider world, and informs the strategic direction of 'third stream' activity that funding bodies and higher education institutions in the UK undertake. See at <http://www.hefce.ac.uk/econsoc/buscom/hebcil>.

which in turn creates local demand. Graduate retention figures indicate no relationship between the relative economic position of a region and retention. This supports the view that universities are important in boosting skills in lagging regions, as in all of the UK's economically lagging regions a majority of graduates remain in the area six months after graduation.

Table 2.1
Graduate retention by region (% of first degree graduates employed in the same region as university six months after graduation)

Region	Percentage
North East	79%
North West	73%
Yorkshire and the Humber	68%
East Midlands	58%
West Midlands	55%
East of England	40%
London	44%
South East	46%
South West	59%
Wales	79%
Scotland	91%
Northern Ireland	82%

Source: HESA (2009/10)

However, retaining graduates remains a challenge that is likely to get more difficult with cuts in non-university public expenditure: recent work by the Work Foundation (Wright 2011) finds that there is a link between the location of young graduates and the proportion of young graduates employed in the public sector, such that public sector cuts will threaten the ability of some cities and regions to retain graduates.

Graduate retention is therefore likely to be one of the most important issues faced by the weakest regional economies, as the university may be the main means by which highly skilled workers are attracted to an area.

2.3 Attracting investment

Universities are not mobile like private sector firms and therefore act as a stable anchor for attracting investment and as a reliable resource for the local area. They can be the key link between a town and the global economy: by attracting foreign students and researchers, universities can offer a link in to the global economy. Universities can act as an entry point for foreign firms to access regional markets and suppliers.

Evidence published by the OECD (Guimon 2008) argues that investment in universities is more effective in generating research intensive foreign direct investment (FDI) than financial incentives to foreign investors:

'[A]mong the factors related to the host country the empirical evidence available suggests that the main location drivers are the availability of world-class research infrastructure and skilled labour as well as the dynamism of the national innovation system, that is, the degree of interaction and collaboration among different firms and other

“knowledge producing and diffusing organizations” ... the availability of world-class researchers is arguably a more critical location driver [than financial incentives] for R&D-intensive FDI.’

There are numerous examples of firms that have chosen to locate next to universities (Russell Group 2010), and the science park movement demonstrates the benefits from universities in attracting investment in physical infrastructure and high value-added firms. In addition, the creation of clusters of firms around universities is likely to have knock-on effects of encouraging larger-scale investment from international firms. In this vein, efforts to encourage spin-outs, graduate/student start-ups and local SME support should be assessed beyond the initial effect these might have on local economic output and employment; they will also have dynamic effects on making the area around the university an attractive place to invest.

This role is likely to become more important as the RDAs are no longer there to direct and partner investors. **LEPs should ensure that universities are central to their efforts to promote their area as a place to invest.**

2.4 Facilitating the innovation ecosystem

The triple helix model of university-state-industry interactions places universities at the heart of the innovation process, creating linkages at different stages of the innovation process (Etzkowitz 2003). Universities provide the infrastructure for national innovation by exploiting laboratory discoveries through patenting and intellectual property; incubating firms; hosting science parks and human development programmes. The university sector is therefore a major asset to the UK’s international competitiveness. At the local level, businesses benefit from interacting with universities to increase innovation, and in this sense constitute a local innovation ecosystem of knowledge exchange and spillovers which can increase the productivity of an area.

However, in practice, universities have tended to focus their efforts on science and technology to drive innovation (Goddard 2011). While this is important, efforts should be broadened out. Innovations in the service sector and in response to social issues – like ageing and climate change – are also a key part of a university’s contribution to economic growth and development. As discussed in chapter 1, these areas are more likely to deliver future jobs growth.

Collaboration with business

Universities are important in aiding the innovation efforts of firms. Major firms have led the way in establishing long-term partnerships to tap into the research expertise generated by universities to maintain their competitive advantage. For example, Rolls Royce has established university technology centres for the very purpose of ensuring that the company is at the cutting edge of technological research. Similar examples can be found in most sectors of the economy.

Given the value that large firms see in collaborating with universities, it is unsurprising that government research has found that collaboration with universities enhances the effect of innovation on firm performance: in diversifying product ranges, increasing market share and improving on the quality of products.

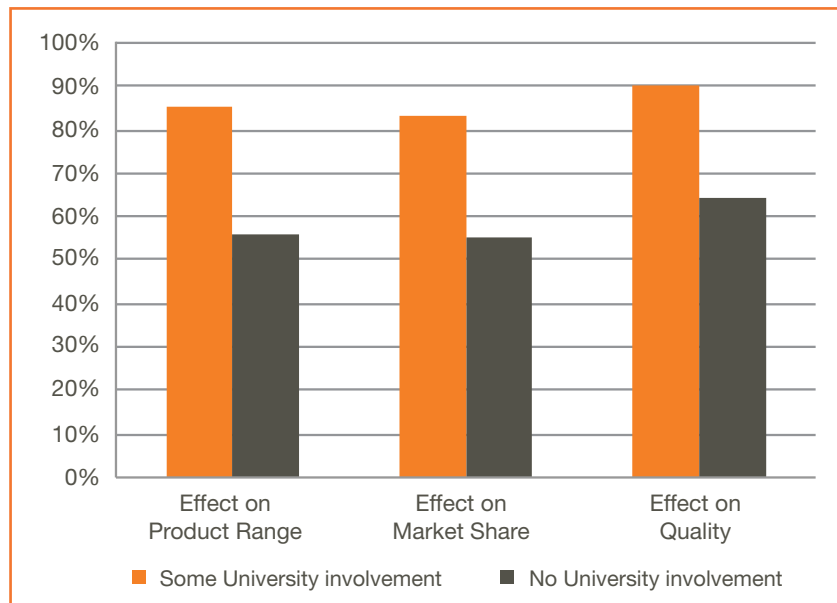
Box 2.1: Building long-term strategic partnerships: Rolls Royce university technology centres

In the late 1980s, Rolls Royce set up the University Technology Centre Network in the UK to focus its interaction with academic research on selected partners as part of long-term mutually beneficial relationships.

The programme has gone on to create a global network of universities that contribute to Rolls Royce directly through connections to cutting-edge academic research capability.

These relationships also work in the universities favour by providing opportunities for students to learn about practical applications of research, and to provide a direct link to graduate employment opportunities.

Figure 2.2
Effects of university involvement in collaboration: respondents reporting positive effect of innovation on performance

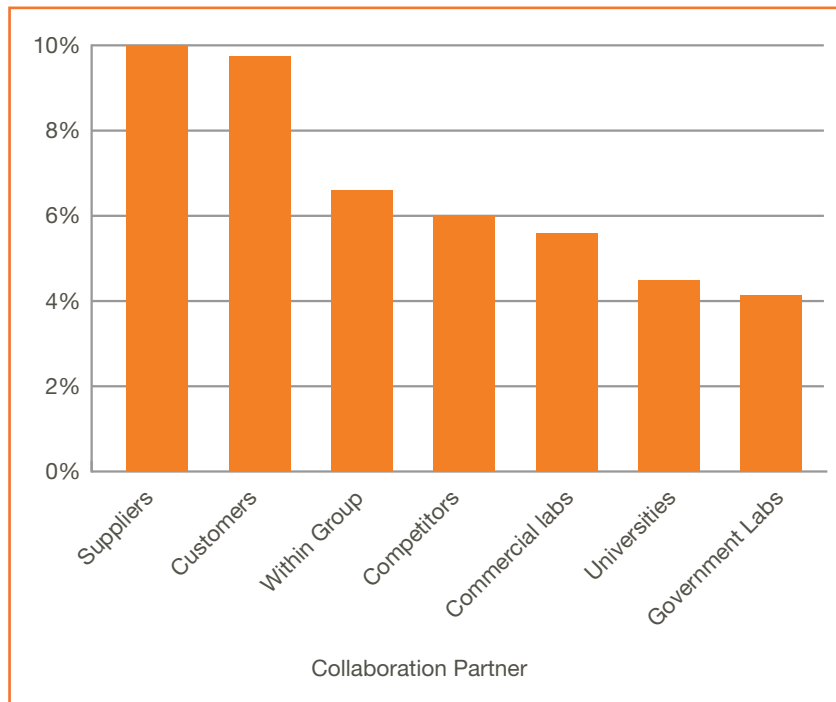


Source: Swann 2009

Despite this crucial role there remains a lack of belief in areas of the private sector that universities are the best organisations to work with on innovation, as shown in figure 2.3 (over). In addition, the role of UK universities in innovation appears to be highly concentrated in a small number of industrial sectors (Laursen and Salter 2004).

These perceptions are perhaps reflected in the trends in universities' contract research and consultancy income from the private sector: as figures 2.4 and 2.5 (over) show, contract research and consultancy income from the private sector has been broadly flat in recent years and is a smaller share of income compared to contract research and consultancy delivered to the public sector. In addition to this, the majority of universities' income from businesses comes from outside the region of the university (Centre for Cities 2011): the level of local firms buying services from universities is limited.

Figure 2.3
Businesses' perception
of the importance of
different collaboration
partners



Source: Swann 2009

Figure 2.4 (left)
University income from
contract research ('000s)

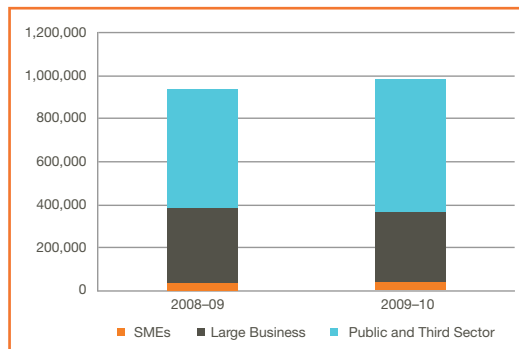
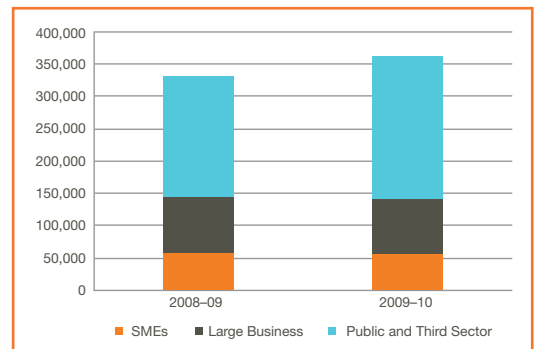


Figure 2.5 (right)
University income from
consultancy ('000s)



Source: HE-BCI survey 2009/10

In summary, universities appear, therefore, to be a small influence on private sector innovation in general, but those firms that do collaborate do seem to show better performance. This seems to suggest that there is significant scope for more involvement in universities driving firm performance, especially as research suggests that the drivers behind companies using universities for innovation depends strongly on a firm's openness to different sources of innovation (Laursen and Salter 2004). Universities do have the infrastructure to support business engagement (see figure 2.6 over), this suggests that factors such as the cost of engagement and the awareness of how universities can help local business need further consideration.

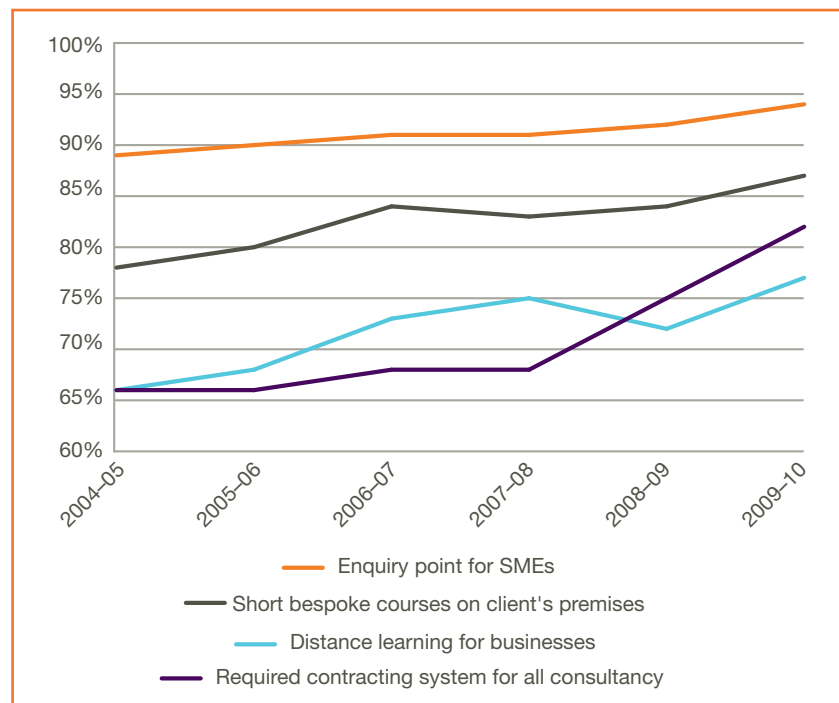
There is a risk that business engagement is an activity that may take less of a priority as university funding is reduced (Wright 2011). This may be particularly true during the period of transition. With this in mind, the government's decision to ringfence the Higher

Education Innovation Fund (HEIF) for the spending review period is welcome. The HEIF provides incentives to strengthen connections between universities and businesses to create a more integrated innovation ecosystem.

University and business engagement can be a win-win: while universities have much to offer economic growth through their contribution to innovation; engaging with business also offers universities a means of diversifying their income in austere times. This could provide sustainability as the funding regime changes. However, for this to work, it is important that any future business engagement activity is of low cost to the university.

The success of the innovation voucher scheme demonstrates the potential for increasing business engagement through lowering the cost of these activities to business (see box below). The new innovation strategy commits the government to implementing a new innovation voucher scheme to support SMEs in working with universities and other research organisations. The scheme will be carried out in partnership with the Technology Strategy Board (TSB) and LEPs, initially focusing on geographical areas and sectors which have relatively low levels of private sector innovation and growth to date (BIS 2011c). This could prove beneficial for economic growth in lagging places. Chapter 5 outlines some further ideas to lower the cost of business engagement.

Figure 2.6
Percentage of universities with business-friendly practices



Source: HE-BCI survey 2009/10

The need to increase universities' role in business innovation has long been recognised, and while universities have improved their processes for working with business, there remains scope to deepen universities' involvement in this area. Future ways of doing this are considered in chapter 5.

Box 2.2: Innovation Voucher Scheme

The Innovation Voucher Scheme was designed to enable small registered enterprises to access knowledge and expertise to develop innovative solutions to business issues.

The programme usually covered a voucher of up to £4,000 to enable small enterprises to tap into this expertise. In England, the scheme was funded by RDAs and is currently closed; in Scotland, Wales and Northern Ireland, the schemes are still running.

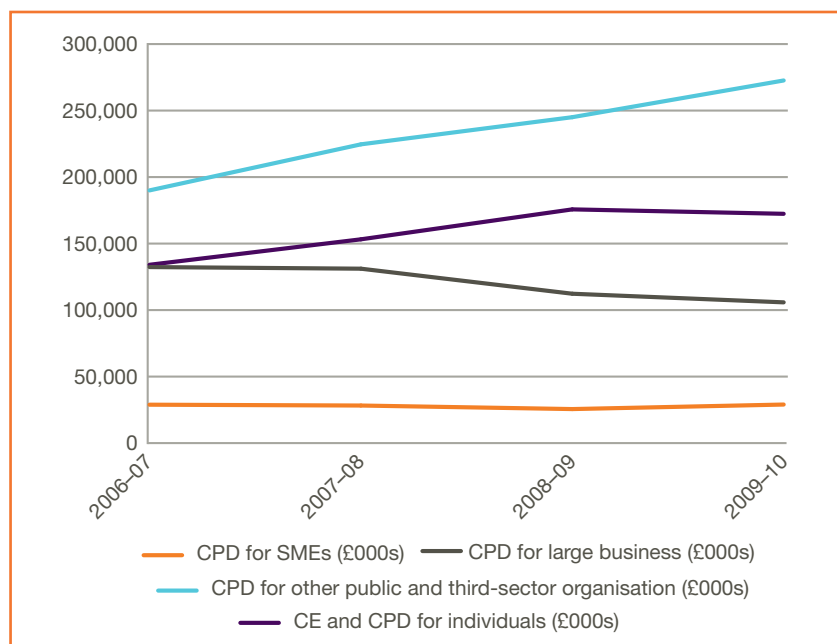
In an evaluation of the scheme:

- 60 per cent of businesses surveyed said they had never participated in a joint project with a higher education institution (HEI) before they used innovation vouchers, indicating their effectiveness as a means of engaging diverse business.
- All of the businesses said that the project they were involved with had either met (65 per cent) or exceeded (35 per cent) their expectations and 86 per cent said that they had stimulated further collaborations. This acts to boost the universities' profile among local businesses and to create long-term relationships between universities and SMEs.

2.5 Workforce development

Workforce development is something that is offered by almost all HEIs, but does not seem to be viewed as particularly important in terms of the university aiding local economic growth: less than five per cent of universities see it as an area where they make a contribution to economic development. This is reflected in the trends in income from delivering continuing professional development (CPD) in figure 2.7.

Figure 2.7
Universities' income from
CPD activities,
2006/07–2009/10



While there are excellent examples of industry/university collaborations to design degree courses (see box below), there is scope to improve universities offer to SMEs and in the area of short courses and workplace-based training as well as an opportunity for universities to accredit the existing skills of workers.

Box 2.3: University of Bradford/Morrisons Corporate Degree Programme

Launched in partnership with Bradford University School of Management, the Morrisons Corporate Degree Programme offers undergraduates a salaried job while studying part time for a BSc in Business and Management. The course fees are also paid for by Morrisons.

The three-year 'earn as you learn' programme is a mix of block learning at the school, distance study, on-the-job work experience and work-based projects in the food manufacturing division business.

A review by the CBI in 2008 found that there was great potential for universities to capture more of the workforce development market, but that there were barriers related to business perceptions and experiences of university interactions: 44 per cent of businesses surveyed did not see the benefit from university interactions; 11 per cent had attempted to engage but found the university unwilling or unhelpful (both these figures were higher for smaller companies). **There remains a need for universities to market their capabilities better in the area of workforce development to increase university share of the market and diversify their income. The LEP structure offers a potential way of making businesses more aware of what universities can offer.**

Box 2.4: University of Hertfordshire and workforce development

In 2007, the University created Exemplas, a not-for-profit organisation that is 98 per cent owned by the university.

It provides a dedicated business support unit that brings together expertise in change management, business brokerage, corporate development and leadership, skills and training, and enterprise.

It has integrated short courses into its provision: the University of Hertfordshire is the largest higher education CPD provider in the UK and by 2010 Exemplas had a turnover of £25 million and has interacted with 50,000 UK businesses.

2.6 Start-ups and commercialisation

Commercialising university research through spin-off businesses and licensing allows university expertise and research to increase productivity in the local economy. However it is important to recognise that university start-ups represent a very small proportion of overall start-ups in the economy (Swinney 2011), and have tended to be concentrated in the high value-added science and technology industries, that although crucial for economic growth, are not usually associated with significant employment creation (Cox 2012, forthcoming). **Universities should seek to increase the overall number of spin-out firms, and in particular increase the proportion of spin-outs in fields other than science and technology, particularly service sector firms, which are likely to create**

more jobs. This should be done in a way that exploits the knowledge and skills of university staff involved in the broad range of university activities.

Student start-ups are also relatively small in number compared to overall start-ups, however their numbers are growing significantly.³

- In 2000, 1.5 per cent of graduates were self-employed six months after graduation; by 2010 this had risen to 4.4 per cent. This is not simply an effect of the challenging graduate jobs market, the figures had been on an upward trend anyway.
- In 2000, institutions reported 179 graduate start-ups, by 2009 this had risen to 2,045, an 11-fold increase in nine years.
- In addition, the tendency for graduate start-ups is becoming more widespread: those 179 graduate start-ups in 2000 were drawn from just 27 universities; by 2008, 75 universities could claim at least one graduate start-up.

Initiatives to encourage student start-ups include enterprise education, enterprise competitions and direct support for student start-ups. Despite a significant proportion of HEIF funding dedicated to encouraging student enterprise in this way, there is little evidence as to the efficacy of these schemes in increasing the amount of entrepreneurial activity amongst students and graduates. **Universities should work with HEFCE and other key stakeholders to evaluate the impact of enterprise support schemes to identify the best use of funding in this area.**

2.7 Universities as civic leaders

The idea of universities as civic leaders has recently come to the fore with the Leadership Foundation for Higher Education's programme on place-based leadership and the role of universities. An example of the type of activity referred to as civic leadership can be found in the box below. A civic university has been defined in Goddard (2010) as:

'The engaged civic university which I propose is one which provides opportunities for the society of which it forms part. It engages as a whole with its surroundings, not piecemeal, it partners with other universities and colleges, and it is managed in a way that ensures it participates fully in the region of which it forms part. While it operates on a global scale, it realises that its location helps form its identity and provides opportunities for it to grow and help others, including individual learners, businesses and public institutions, to do so too.'

The idea of the civic university harks back to the founding of many universities as institutions to forge competitive advantage in industrial cities and to provide the opportunities for local people to access growing economic opportunities. Universities were also one of the institutions that contributed to civic identity as city populations grew and became more diverse. In a sense, the idea of the civic university calls for a return to this local focus of universities driving local economic growth and social mobility. Taylor (2010) identifies a number of ways in which universities can perform this role:

- strengthening the links between place and university applied research
- initiatives to promote access and inclusion
- links around business and product development
- academic and student civic volunteering
- universities and local public sector innovation.

³ Figures are from the HE-BCI survey.

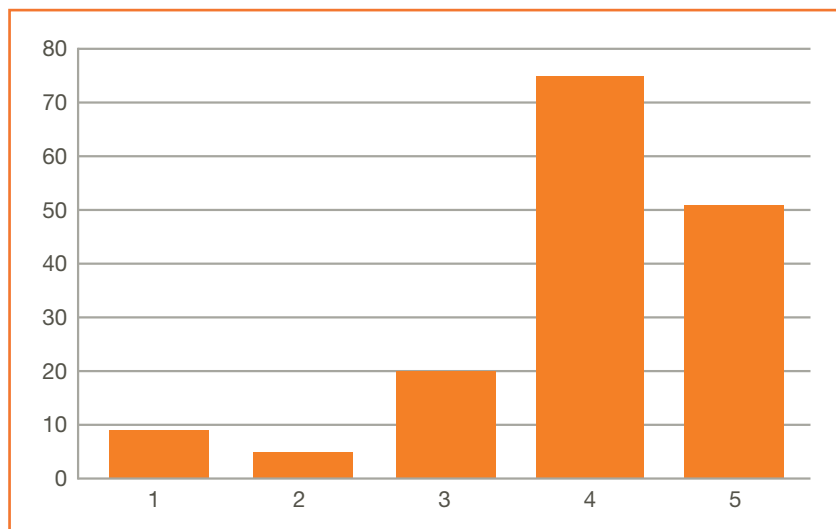
These are themes that are returned to in chapter 5 where practical ideas for putting this thinking into action are proposed.

Attitudes of universities towards civic leadership

Very few HEIs (four per cent) see their locality as being a priority of their mission and almost a third of HEIs do not see *any* geographical area as part of their mission. Just 12 per cent of universities see supporting community development as a main area where they make a contribution to economic development (HE-BCI survey). In terms of community regeneration, about a third of universities see themselves in a leadership role within their local area (see figure 2.8). A common misperception⁴ is that the research-intensive universities are less concerned with local leadership and identity than the post-1992 universities: this is not borne out by the data on local engagement and leadership. Research-intensive universities actually seem to score slightly higher than other universities when it comes to indicators of local area engagement.

The abolition of the RDAs presents both a challenge and an opportunity in this area: in 2008, 32 per cent of universities saw the area of greatest priority for the university's institutional mission as the area *as defined by the RDA*, suggesting adapting to the new economic development structures will be challenging for some, especially as the RDAs had access to significant funding. However, the new LEPs, in some instances, do present an opportunity for universities to re-orientate their concerns to an area with a better defined identity and history rather than the administrative RDA areas.

Figure 2.8
How universities see their role within community regeneration (number of respondents)



Response key:

1. No engagement within community regeneration schemes, apart from individual efforts
2. Between 1 and 3
3. Some representation of the HEI on local partnerships at senior management level, but with limited implementation capability
4. Between 3 and 5
5. Active and creative engagement with community programmes, with the HEI taking a leadership position and applying a variety of resources. Community regeneration seen as a mainstream activity with role for access policy, linked to student community action and staff involvement as part of staff development

Clearly in terms of universities seeing themselves as civic leaders there is some way to go. A number of barriers have been identified hindering universities' civic role. Much of this

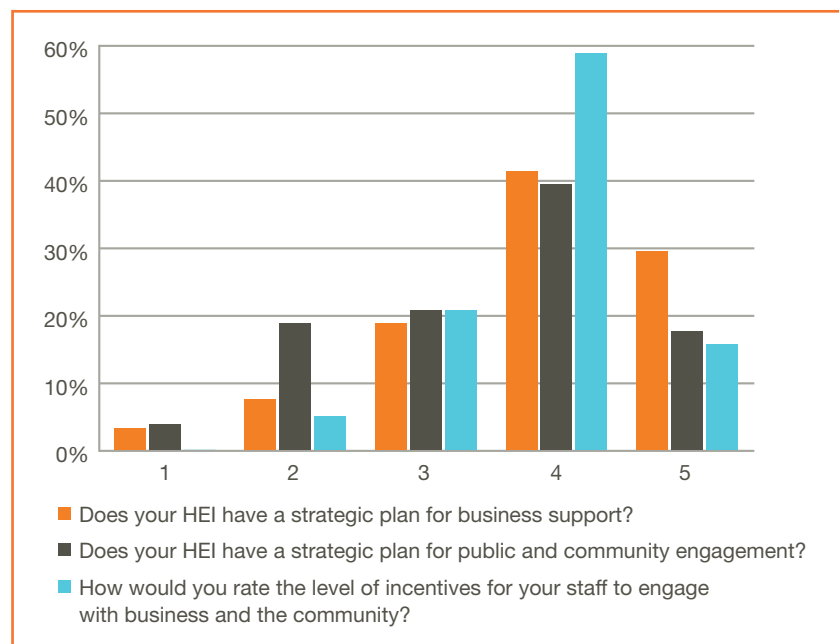
⁴ See, for example, Goddard 2010

comes down to mutual lack of understanding between universities and civic institutions. Goddard and Vallance (2011) outline a range of barriers to universities fulfilling a civic role, including stretched resources and time pressures; perceptions that academics are slow to respond and inefficient; and a lack of management structures within universities to facilitate and lead civic engagement.

Formal arrangements for civic leadership

Formal arrangements for defining the universities' civic role are highly variable between institutions (see figure 2.8). Although the majority of universities have a dedicated plan for business support, the level of planning for community engagement appears patchy, with over half of universities scoring less than three out of five in the public and community engagement question.

Figure 2.9
HEI plans for business engagement, (% of universities, responses on scale 1 to 5, with 5 indicating strongest)



Response key:

1. No strategic plan in place
2. Between 1 and 3
3. Strategic plan developed and only partially implemented
4. Between 3 and 5
5. Strategic plan developed as a result of an inclusive process across the whole HEI

Configuring universities as civic leaders is a laudable aim, but there is a long way to go on the basis of current evidence. Given the financial pressure on universities, the aim may be challenging to fulfil. However recent changes to policies and institutions also offer universities an opportunity to develop their role in the local economy further. If they are able to do this, the concept of the civic university may become more embedded. Section 5.3 examines how universities might expand their civic role in this environment.

2.8 Summary

- Universities are a powerful means of delivering local economic growth as they act on the factors that drive growth: skills, investment and innovation.
- Universities play a key role by employing, upskilling and importing talent.

- Universities appear to be a small influence on private sector innovation in general, but those firms that do collaborate do seem to show better performance.
- Universities have improved their infrastructure for business engagement in recent years, but with no corresponding increase in contract research and consultancy income from SMEs.
- Likewise, delivery of workforce development to business has yet to take off as a major source of income for universities. It has the potential to contribute to a more mixed income base for universities, assisting their sustainability.
- Changes to policy and local institutions for economic development offer opportunities for universities to develop their civic role. However, at the present time there is a long way to go before the vision of civic universities is fulfilled.

3. RECOGNISING THE UNIVERSITY SECTOR'S DIVERSITY

All universities aim to deliver a combination of excellent teaching, cutting edge research and involvement with businesses both locally and further afield. At the same time, the way that universities interact with their local area is not uniform. Different institutions have different goals and the characteristics of the area in which they are located may determine the type of interaction they have with economic development in their locality.

The previous chapter outlined the major ways in which universities contribute to economic development. This chapter attempts to explore the way in which different universities tend to place greater emphasis on some roles compared to others with respect to their local economies.

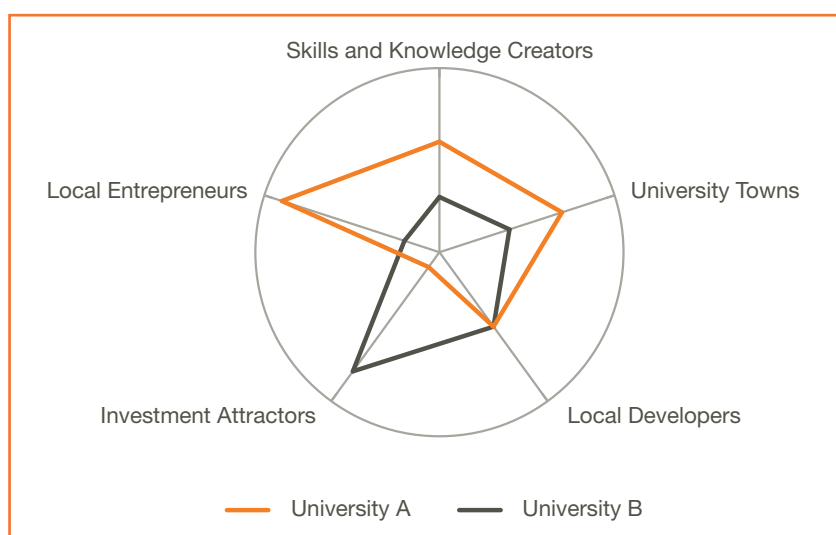
We did this by using cluster analysis techniques. Cluster analysis is a mathematical procedure used widely in market research such that individual cases (in this instance, universities) are assigned to groups based on maximising the similarity between members of the same group and minimising the similarity between members of different groups using a basket of indicators. The indicators we used were drawn from publicly available university data and the HEFCE Business and Community Interaction Survey results.

Discrete categorisation of universities in separate groups would be misleading, as most universities perform a mix of roles in relation to their economy. However, this analysis revealed six dimensions of activity that a university might tend towards: in each case all universities will perform the role to a greater or lesser degree; the point here is how far a university tends towards each dimension.

- **Skills and knowledge creators:** While all universities play this role, these institutions are characterised by a high reliance on teaching income, but with lower than average levels of engagement with local business. They are generally located in areas of high economic deprivation.
- **University towns:** Institutions that are absolutely central to their local economy. They generate high levels of income in their local economy, including significant amounts of research and consultancy income, are important as a local employer and start-up generator. They tend not have *formal* links with the local business community, possibly because they are so central to the local economy there is no need.
- **Local developers:** Large urban universities which see themselves as having a local leadership role and whose research and consultancy for local firms is important. Student populations make up a significant proportion of the local young adult population.
- **Investment attractors:** Large universities that have less of a local focus than 'local developers', and perhaps could be caricatured as multinational companies located within their local areas.
- **Local entrepreneurs:** Tend to be universities geared towards the practical application of academic knowledge and have high levels of local business engagement and are themselves generators of economic growth through high levels of start-ups, though less focused on their civic role.
- **Specialists:** HEIs without any consistent pattern in any of the indicators, probably because they are small institutions focused on particular areas such as music or medical research, as such they were left out of further analysis.

As an illustration of how this sort of analysis might help with thinking about universities' role in economic development, two stylized examples are given in this radar chart.

Figure 3.1
Radar chart of the dimensions of universities' role in economic development



Note: The extent to which a university tends towards any of the dimensions is characterised by the distance of the line from the centre of the chart.

In the above example, University A's score on each of the dimensions indicates that it is a key player in the local economy, raising the skills and aspirations of the local population, being well engaged with local industry, as well as contributing a large amount of economic demand through students and staff.

University B is somewhat different – while having formal local leadership roles, it is not as well integrated into local industry, but it does bring in income to the area via large research contracts and acts as an attractor to investment.

3.1 Dimensions of universities' role and drivers of regional economic development

The different dimensions outlined above align with different roles in regional economic development.

Table 3.1
Dimensions of universities' role and economic development roles

Dimension of university role	Main areas of regional economic development contribution
Skills and knowledge creators	Upskilling local workforce, attracting skilled workers
University towns	Creating local demand for goods and services; catalysing business start-ups; providing research and consultancy to businesses (locally and further afield)
Local developers	Assisting local firms; creating local demand for goods and services
Investment attractors	Generating income; attracting knowledge workers and investment from outside the area
Local entrepreneurs	Assisting local firms in areas through activities such as CPD and generating business start-ups

The different economic development strengths along the different dimensions of universities' roles suggested by the analysis have different implications for how universities are likely to engage in the new economic development structures. It is not the case that every university should be performing every role in economic development; instead, they should focus on their strengths and use the analysis above to identify areas where they might be able to increase their contribution. Rather than every university seeking to perform all roles, there may be more to be gained from strong partnerships between universities that tend towards different dimensions. In the past, regional university partnership bodies have coordinated this sort of collaboration, but many of these organisations are in decline.

For their part, LEPs need to understand the different strengths of universities in their area, and how they can build on them. Equally there is a risk that some LEPs do not understand the dimensions along which a university is crucial in driving economic growth. Our analysis of LEP board structures and minutes suggests that too often LEPs see university representatives as being solely concerned with skills issues when, as outlined in chapter 2, there are many other ways in which universities can accelerate economic growth. LEPs may be able to help facilitate coordination and collaboration between universities to ensure all dimensions of the university contribution to economic development is proactively pursued in their area.

There is evidence that there is an unequal relationship between universities and their local economy depending on area and university type (Huggins and Johnston 2009). Large research intensive universities tend to have roles that are more international rather than locally focused, and are therefore likely to be better equipped to survive the cuts to regional funding and continue to play a role as growth generators in their local area. However, at the same time, if they tend towards the 'inward investor' dimension, they may have less direct impact on their local economies than universities in other areas that demonstrate a tendency towards more locally embedded dimensions.

LEPs should acknowledge that the university contribution to economic growth stretches beyond skills provision. They should recognise the different ways that different universities in their area contribute to economic development and seek to build on those strengths. LEPs should encourage and challenge universities to actively contribute to economic development.

Perhaps most worrying are the prospects for more economically peripheral and deprived places that have universities that tend towards the 'skills and knowledge creator' or 'local entrepreneur' dimensions. Universities that tend towards these dimensions play a particularly significant role in supporting the local private sector. But these institutions are also under the most immediate threat as their income tends to be derived more from teaching than research. As 'skill and knowledge creators' are generally located in areas of high deprivation, the implications for economic development in places that most need it are concerning.

The government needs to be aware of the risks to some local economies from the reduction in university funding and policy changes that might affect student numbers and the financial sustainability of some institutions, and how this may affect areas differently. If necessary, they should be ready to act to support institutions to diversify their income base in order to be sustainable, particularly where they are the only university in an economically deprived area.

3.2 Summary

- There are variations in the types of relationship between universities and their local area: some universities' main contribution to their local economy might be through the provision of skills training and skilled workers, others might aid local businesses through consultancy and knowledge transfer, and others can be seen as large local companies in their own right. All of these dimensions should be recognised for their contribution to economic development.
- Thinking about these dimensions provides a useful way for LEPs to consider how different universities in their area might be able to contribute more to economic development by building on their strengths. There is a tendency for LEPs to focus on universities' contribution to skills, but not their wider contribution to the economy. This misses a trick.
- Thinking about these dimensions of universities' roles also provides a useful way of considering how different local economies might be affected by financial uncertainty caused by changes to the higher education funding system and public spending cuts. The impact of these changes may go beyond the universities themselves, affecting the wider local economy.

4. MAPPING THE CHALLENGES OF THE NEW LOCAL ECONOMIC DEVELOPMENT LANDSCAPE

Universities clearly have a great deal to contribute to many aspects of economic development, with different institutions showing strengths in different dimensions. However, at a time when policies are changing for how universities are funded and how economic development is funded and managed, there are opportunities and challenges facing universities as they adapt to a new landscape. This chapter considers some of the challenges of these changes, including the adaptation to more local rather than regional structures, the advent of the new LEPs, and changes to regional development and innovation funding.

4.1 Adapting to the shift from regional to local

The removal of the RDAs is likely to be a disorientating experience for the public and private sector organisations that have become accustomed to a powerful regional body to advise on and support economic development. RDAs became a clear central point for engagement, and other regional structures and networks were established in order to interact with them.

Universities have benefitted hugely from working with RDAs on innovation policy, support for skills delivery and investment in research. Indeed in 2008, 59 per cent of HEIs stated that they decided in which industry sectors to concentrate their business engagement on the basis of the RDA regional strategies. The transition from RDAs to LEPs has resulted in some schemes, such as the successful innovation vouchers, being discontinued in England yet remaining available in other areas of the UK, although the government is currently looking to establish a successor scheme with LEPs.

The abolition of the RDAs need not mark the demise of regional collaboration where it remains useful to do so. The closest historical precedent to this policy change is the abolition of metropolitan county councils in 1986. The response to this policy change was different in different places, with some areas discarding the metropolitan county structures, while others retained structures to support joint working and policy coordination. The most significant example of this is Greater Manchester, where the metropolitan county structure was retained through the Association of Greater Manchester Authorities (AGMA), which still has an important role in coordination of policy across the Greater Manchester area, especially in the areas of planning, transport and economic development.

The lesson from the abolition of metropolitan counties is that regional structures need not be totally discarded as RDAs are abolished; where it makes sense, universities should identify areas and partners where some level of regional coordination would be beneficial. However, adjustment to the new economic governance geography will also be needed. The prominent role that universities are playing in LEPs implies that this is already under way.

4.2 University involvement in LEPs

LEPs were encouraged to have a university representative on their boards, but it was not mandatory. Despite this, there is evidence of at least one board member on every approved LEP being a representative from the local higher education sector.

There is also evidence that the involvement of universities in their LEP is linked to the university characteristics and economic development roles identified in chapter 3. For example:

- **Exploiting consultancy and research skills:** The work to develop the Coventry and Warwick LEP Balanced Scorecard will be supported by research being undertaken by Coventry University.

- **Providing a skilled workforce:** One of the Coventry and Warwickshire LEP's priorities is to 'Retain a greater proportion of graduates from our universities'.
- **University as a civic leader:** The Lincolnshire LEP includes among its aims: 'Our university ... will become one of the top 30 in the UK'.
- **Attracting international investment and business collaboration:** The West of England LEP states: 'We believe the LEP needs to focus on areas of international distinctiveness so that we stand out from the crowd and optimise our assets. There is huge opportunity in the collaboration between the creative/digital sector, the IT/silicon sector and university research.'

A LEP's agenda towards universities must not be skewed simply by the strengths of universities that are represented on its board. LEPs should encourage collaboration between universities to ensure all dimensions of the university contribution to economic development are actively addressed in their area.

4.3 Changes to economic development funding

The RGF is the major source of funding for economic development. Some within universities have expressed concern that the RGF is directed towards ends that universities will find difficult to deliver given that the emphasis is on shifting output away from the public sector and on to creating jobs. Nonetheless, universities are well positioned to help secure regional development funding in partnership with others. Indeed, our analysis shows the important role played by universities in the winning bids of the first round of the RGF. We estimate that more than half of the organisations that won in the first round of the bidding have had some substantial involvement with universities in the past, or are currently doing so. Out of the 45 winning bids in round one, five had direct university involvement in putting together the bid and have universities as integral to the delivery of the projects funded.

- Bosch Thermotechnology Ltd was awarded £17.5 million to develop the necessary infrastructure for the proposed Worcester Technology Park on a site near junction 6 of the M5 and will potentially spearhead phase one of a major relocation expansion of Worcester Bosch costing £234.6 million, which aims to create up to 1,700 jobs over the next five to 10 years. Worcester and Birmingham Universities provided expertise on the bid and the redevelopment will help bolster their own facilities and innovation capacity.
- A partnership of the Western Morning News and Plymouth University was awarded £1 million to create a fund to invest in local SMEs in order to create or safeguard jobs. The fund operates like a mini RGF, with bids being invited from businesses in the region. The winner will be awarded investments for a minimum of £10,000 and a maximum of £100,000 (with the average grant estimated at £30,000) and will benefit from the business development expertise of Plymouth University. Already the fund has had to be suspended due to the level of interest in bidding for the scheme.
- Bridon International was awarded £2.2 million to develop a state-of-the-art factory on Tyneside creating up to 50 high-skilled jobs. The University of Northumbria assisted with bid preparation.
- Molecular Profiles Limited, a spin-out from the Laboratory of Biophysics and Surface Analysis in the University of Nottingham won £1.6 million to help build a new £10 million R&D facility and create around 65 jobs in the region. Nottingham University supported the conception and development of the project and will be engaged in future research and use of the facility.

- A partnership between Bruntwood and Manchester City Council won £21 million to redevelop the old eye hospital to create a centre of excellence for biomedical science. The University of Manchester acted as consultants on the bid and will be key to realising the success of the centre.

Beyond those bids that directly involved universities, a further 18 of the winning companies had interacted with universities in a significant way in recent years, including activity around collaborative research (such as Alstom Grid sponsoring PhD research at Aston University) and knowledge transfer partnerships as well as joint-working to develop degree courses (such as David Brown Gear Systems working with Huddersfield University to create a master’s degree in gear technology).

Universities and Universities UK should champion their role in winning RGF bids and BIS should actively promote university involvement in RGF bids amongst potential bidders, to support further university engagement with business innovation.

Beyond the RGF, the ERDF remains an important source of funding for projects that help universities to drive economic growth in their area. The administration of this funding has been centralised with the abolition of the RDAs. Table 4.1 below demonstrates the importance of universities to delivering the ERDF’s aims; in some regions, university-led projects account for over a fifth of ERDF funds. The funds support a range of university activity such as innovation vouchers, setting up collaborative research centres, stand-alone research projects, and programmes to improve graduate recruitment and graduate entrepreneurship.

Table 4.1
ERDF funding
of university-led
economic development
programmes
(2007–2013)

Region	Funding
London	£6,816,768
East	£3,379,363
South East	£203,740
South West	£16,818,310
North East	£13,890,000
Yorkshire and the Humber	£45,369,567
West Midlands	£13,078,398
East Midlands	£33,805,264
Wales	£101,296,195

Note: Data for the North West was not available.

The current funding round ends in 2013. Beyond this point there are two factors that are likely to change how the ERDF is delivered which are of relevance to the university sector. First, it is unclear whether the 2014 ERDF funding programme will be delivered at the LEP level or whether there will be a national strategy for England. Second, the EU has signalled that the ERDF from 2014 will have an emphasis on education, research and innovation to help deliver the EU 2020 growth strategy. This change implies that universities are likely to be even more important for the achievement of ERDF objectives in the future, and therefore there is an opportunity here for universities to be more influential in shaping how ERDF funding results in economic growth in their area. But a centralised England-wide strategy would make this difficult.

The government should ensure that the distribution of post-2013 European structural funds corresponds to local economic priorities and opportunities in order to deliver coherent local economic development. Rather than pursue a national ‘smart specialisation strategy’, responsibility for these strategies should be decentralised to the sub-national level. As the main vehicle for driving economic growth at the sub-national level, LEPs should coordinate this strategy, with funding and support to fulfil this role where required.

Universities should ensure their voices are heard as part of the debate about post-2013 EU funding, to make certain it remains a resource they can use to influence economic growth in their area. They should also continue to work through their local LEP and with other partners to bid for the current round of ERDF funding to support economic development activities in their local area.

4.4 Innovation funding

In the new policy landscape there is a premium on university capacity to form relationships and collaborate with local businesses to create partnerships that are attractive to public policies that aim to create employment and increase private sector growth. However it is clear that in a challenging financial environment, funding for business engagement and commercialisation from the TSB will continue to be highly competitive. Although there has always been some degree of central funding of innovation through the TSB and the HEIF, the abolition of the RDAs lessens the incentives for local innovation clusters and the placement of universities at the heart of this role. Along with R&D grants, RDA innovation funding was especially important to develop knowledge exchange infrastructure, such as science parks and university incubators. The removal of this funding stream presents a danger that such infrastructure may no longer be viable (Smith 2010). As chapter 2 has already argued, the importance of such infrastructure to attracting investment and increasing innovations via university–firm interactions is profound.

There is also a real risk that innovation funding could end up being concentrated in particular areas of the country, as the large research universities may potentially be successful in winning the majority of the funding from sources like the TSB, where funding is focused on supporting excellence. This may have the effect of reinforcing current patterns of uneven regional growth and R&D spending (as discussed in chapter 1). Part of the universities’ response should be to seek to partner with each other to increase the probability of receiving funding and to draw on a greater pool of research resources through such partnerships as N8 (see chapter 5). This will make it easier for businesses to engage with universities, which may result in more income from this stream for the sector.

Such partnerships will support the development of innovation ecosystems to serve local economies and support spatial specialisation and the spreading of the benefits of innovation-led economic growth beyond already successful areas to increase the resilience of local economies. It is local economies with high proportions of innovative businesses that are the ones that prosper and thrive (Manchester Economic Review 2009).

Universities should be more proactive in making the argument to government that there should be more local control over innovation funding. **The government should reverse the centralisation of innovation funding. Funding should be devolved down to the sub-national level to allow areas to be agile in reacting to new opportunities, to**

encourage spatial specialisation and to support local innovation ecosystems. As the main vehicle for driving economic growth at the sub-national level, this could be a future role for LEPs.

As part of this change in funding emphasis, the government announced in late 2010 the establishment of a network of technology and innovation centres (TICs), or ‘catapult centres’ as they are now known:

‘Technology and innovation centres will be drivers of future economic growth. They are physical centres that will attract substantial investment to establish world-leading capability and global impact in pre-commercial development. They will provide access for business to the best technical expertise, infrastructure, skills and equipment, which individual companies cannot afford to invest in on their own.’

BIS website

The policy is clearly intended to provide facilities to enhance the national capability in innovation. There is little emphasis on engaging with the local economy. However, while there is an opportunity here for catapult centres to provide the critical mass of innovation assets to be influential in attracting investment into an area, their focus on building on UK excellence will take a spatially blind approach.

4.5 Summary

- The dismantling of regional structures poses a challenge to universities that have become accustomed to taking their cue for involvement in their local economy from RDAs.
- But universities are adapting to this new context. Universities are well represented on the board of the new LEPs and many LEPs have defined a strategic role for universities in delivering economic growth.
- Universities have also been directly and indirectly involved in attracting RGF funding in partnership with private companies. This is indicative of universities adapting to the new policy landscape that emphasises the role of collaboration and smart coalitions with other partners to attract investment.
- The government’s approach to innovation policy is overly focused on enhancing national innovation capabilities, and lacks a spatial element. Innovation is a key driver of economic growth and productivity and it must form part of a sub-national economic growth strategy.
- Competition for economic development funding is likely to be strong, and centralised funds present a challenge to ensuring that universities contribute to even economic growth across the country.

5. EXPLOITING NEW OPPORTUNITIES

To maximise their economic contribution at a time of slow growth and public sector austerity, universities must exploit new opportunities. These include: lowering the costs of business engagement; building relationships and creating networks with the local business community; realising the civic university vision through taking up new opportunities offered by public service reform; increasing the local impact of their research; and helping to fill the gap left by RDAs. We explore each of these in turn below.

5.1 Lowering the costs of business engagement

Perhaps the biggest opportunity confronting universities is increasing their income from contract research and consultancy. As shown in figures 2.4 and 2.5, the income to universities from these sources has stagnated and could even be falling. This is despite the clear need to increase firm innovation and productivity in order to grow the economy.

Furthermore, aside from the call to arms to support economic growth, there is also a good business case for universities to continue to increase their engagement with the business community. In an environment where higher education funding is uncertain, providing services to the private sector offers a means of diversifying the income base of a university. This may be particularly important for universities that tend towards the 'skills and knowledge creator' dimensions as they also tend to be most at risk from changes to higher education funding, and are more likely to be located in areas that are lagging economically, and most in need of economic growth (see chapter 3).

In a context where spending on economic development has reduced considerably and businesses are less willing to take risks, it is important that the benefits of universities' involvement in their local economy are not lost. To do this the *costs of business engagement* need to be lowered for both universities and business.

Open innovation

A good example of where this has happened already is the Universities of Bristol, Glasgow and King's College London becoming 'open innovation universities' by allowing some of their intellectual property to be accessed free of charge.

The thinking behind the broader idea of open innovation is that economic systems need to move away from the idea that knowledge and ideas are produced in a firm's R&D department and draw in more external sources of knowledge (Chesborough 2005). This shift is reflected in local economic development strategies that emphasise clusters of firms and knowledge spillovers. The benefit to local economies is that there is a better matching of research and knowledge to practical applications. For example, there may be some research in universities that provides the missing piece of the jigsaw in improving a local firms' production process: open innovation makes it more likely that this firm will be able to discover this research and it lowers the costs of doing so.

The significant role of universities in supporting and driving innovation was highlighted in chapter 2, but as we noted there is scope for the impact to be far greater than is currently the case. Open innovation has the potential to increase productivity and contribute to new product development, thus boosting economic growth. And while there are, obviously, limits to what universities can do for free, where possible, initiatives that allow access to knowledge on a limited basis should be encouraged.

5.2 Building relationships and creating networks with the local business community

Outside of initiatives like open innovation, many of the opportunities related to business engagement rely on building relationships and creating networks. As shown in figure 2.6, almost all universities have arrangements for dealing with enquiries from local business, but beyond the formal structures for business engagement through consultancy contracts and knowledge transfer partnerships, it is not clear that universities fulfil the vision of the civic university where engagement with local business is integrated fully into a university's activities. Chapter 2 detailed survey evidence that places universities far down on the list in terms of where businesses look to for collaboration for innovation purposes; given the innovation assets that universities possess they should come top. As stated by Will Hutton recently:

'This isn't just about bright research ideas generating a few billion dollar businesses, although we will need a few of these. Genuine academia-industry relationships must become business as usual across our economy. A small catering company should be totally comfortable asking their local university how to make their products go off less quickly. A struggling online content provider should know how to access the UK's experts on business model research.'

University Alliance 2011

To this end we see opportunities to build stronger, more extensive relationships with local businesses, especially to businesses in the service sector that may not have seen the relevance of the university to their business success. **LEPs should provide a forum within which business and university collaboration can flourish. They should seek to facilitate greater interaction and understanding between the two sectors. There is scope to expand universities' businesses engagement. In particular, universities should market themselves more effectively to businesses that may not have considered university collaboration before.**

One way that universities can increase their direct interaction with businesses is by creating a membership structure for local businesses to join. This could be as simple as a monthly email newsletter informing businesses of what universities have to offer, or like ProfitNet at the University of Brighton, a business club with regular meetings.

Box 5.1: Case study of ProfitNet, a University of Brighton enterprise

'Profitnet is an innovative business development and support programme that enables small and medium-sized enterprises to help themselves and their peers. Profitnet is a 12-month programme made up of three-hour monthly group meetings supported by an active online community. Profitnet enables small and medium-sized enterprises to learn from each other and gain access to the expertise of the University of Brighton as well as receiving input from practitioners in every business.'

There are a number of good practice features that ProfitNet exhibits:

- It has a dedicated brand that is separate from the university, making it seem less intimidating to businesses that have not engaged with universities before.
- It is low cost for participants, but creates potential for deeper engagement.
- It is based around facilitating local business networks rather than a direct relationship between a business and the university, putting the university at the heart of the local business community.
- It is inclusive in terms of the type of firm that it engages with. The website champions examples of members who are small, local firms, most of whom are in the service sector.

When thinking about building relationships and networks, the student population is a resource that universities have to provide low-cost engagement. As Matthew Taylor of the Royal Society of Arts (RSA) has identified:

‘Every year tens (if not hundreds) of thousands of students have to undertake extended research projects for undergraduate or Masters degrees. A lot of those students are looking for good ideas and almost all of them would like a bit of cash and other support. At the same time lots of people would like to have access to some reasonably proficient research skills ... So, this is the idea: a bidding and matching website in which people who would like research undertaken are matched up with students looking for topics, cash, an audience and other forms of support.’

Of course many universities already market the research skills of their students to local business (such as on MBA programmes), but to fully integrate this approach into how the university works a more comprehensive offering is required. This sort of approach may not in isolation affect local economies greatly, but will deepen the links between a university and its local area and provide a low-cost entry point for business engagement with universities.

The RSA is currently looking to develop and pilot a research matchmaking portal with London South Bank University. This is intended to be used as a platform by both researchers and those seeking research to link up with suitable partners who will meet one another’s requirements.

An existing example of this is the Yaffle website hosted by Memorial University in Canada.⁵ This website allows staff and students at the university to post details of research projects they are doing and would like to do, but at the same time allows local community organisations and business to post ideas for research projects that they would like doing. The site works as a matchmaking service where staff and students of the university can be matched with local organisations and companies. Universities should keep abreast of the RSA’s pilot project and a similar business-orientated offering should be developed.

It may not always be the case that the nearest university offers the kind of expertise that a business needs. In this respect universities should collaborate to ensure that businesses can always be directed towards universities that are best suited to their needs. University partnerships such as N8 provide good examples of how this might be achieved.

⁵ See at www.yaffle.ca

Box 5.2: Better matching of expertise to need: N8

N8 is a research partnership of the eight most research-intensive universities in the north of England: Durham, Lancaster, Leeds, Liverpool, Manchester, Newcastle, Sheffield and York. By partnering into a single brand, businesses can engage with the partnership and access a broad research base and a quicker match to the expertise they require as well as creating the potential for the formation of research teams tailored to individual client needs that draw from the staff in all eight universities.

So far the partnership has supported over 200 SMEs, created over 60 jobs and leveraged in £37 million of private investment. The N8 is now creating an industry innovation forum, a powerful cluster of research intensive universities, SMEs and global firms involved in R&D including AstraZeneca, Croda, National Nuclear Laboratory, Proctor & Gamble, Reckitt Benckiser, Siemens, Smith & Nephew, and Unilever. This will support open innovation in specific technology areas, and match industry 'wants and needs' with solutions and possibilities from the research base.

Universities should explore better integration of local businesses into the university through initiatives such as business clubs and a matching service between local business research needs and the skills and interests of students and staff.

5.3 Realising the civic university vision

The idea that university funding from central government should be re-aligned to the mission of civic universities and that these universities should have access to a 'significant pot of funding' (Goddard 2010) is clearly problematic in the current public finance environment. There are, however, opportunities to further embed universities role in their local area as the government moves towards more decentralisation and localism.

Public service delivery

The move towards greater autonomy for public service institutions provides an opportunity for universities to deepen their involvement in the governance and delivery of public services within their area. This is not new; for example, universities have always been integrated with the NHS in terms of teaching and research to support service delivery and there are many other areas where this is the case. The freeing up of local public services from direct state control provides an opportunity for universities. A good example of this is universities sponsoring academy schools: extending the universities' links with the local community and providing expertise to local institutions. The advent of free schools further increases the opportunity for universities to be involved with the delivery of education into the schools sector. This opens up the possibility of co-location.

Universities should be alert to similar instances where the government is looking to devolve control and delivery of public services away from central and local government. The recent outsourcing of employment services as part of the Department for Work and Pensions' Work Programme was one of the largest procurement of public services, yet the involvement of universities in the delivery of this programme has been limited. University-owned companies Exemplas (University of Hertfordshire) and Ixion (Anglia Ruskin University) are acting as sub-contractors in delivering the Work Programme. In Ixion's case, the delivery of the work programme services is being informed by Anglia Ruskin's research including the design of cutting edge psychometric and coaching techniques and

drawing on evidence from international research into what is the most effective model for placing the unemployed into work. With universities' expertise in supporting start-ups, enterprise education, delivering training and helping graduates into work, this is perhaps an area that universities may increase their involvement in their local economies and their relationships with local employers.

Box 5.3: UCL Academy

UCL Academy, located in Camden, London, is a school for 11–18-year-olds sponsored by UCL that will open its doors to the first cohort of pupils in September 2012.

The university intends to take a hands-on approach to the running of the school and to integrate much of what the university does into enhancing the educational experience of pupils at the schools, such activities include:

- a science demonstration theatre at the school which will allow UCL academics and UCL Academy staff to stage interactive experiments
- regular opportunities for pupils to visit scientific laboratories at the university
- using university staff to support teachers' subject knowledge and encouraging UCL students to work in classrooms as mentors and tutors
- delivering professional development of academy staff at the university including offering funded places for staff on relevant UCL postgraduate programmes
- supplementary education from UCL staff in the form of masterclasses, seminars and summer schools.

Universities should be proactive in seeking out opportunities to play a part in the governance of local institutions and the delivery of public services. The Work Programme is a major area that universities might increase their involvement in their local economies and their relationships with local employers.

5.4 Local research impact

The increasing emphasis on demonstrating research 'impact' from research funders in the UK provides the impetus for developing mutual benefits between universities and their localities: local areas provide the opportunity to initiate and monitor the impacts of research on a more cost-effective basis and local areas benefit from the implementation of innovative ideas and the opportunity to be at the cutting edge of research. It is perhaps in social science that there is the greatest potential to increase universities local research impact, from using research to design new public policy, to designing experiments to test the efficacy of different public service interventions.

Box 5.4: Rediscovering the civic and achieving better outcomes in public policy – an ESRC Ventures project

This project was delivered by a partnership of the University of Manchester and the University of Southampton and included a number of research projects to analyse and test new approaches in the local areas of the universities to encourage active citizenship and civic behaviour.

An example of one of the projects was to work with a local environmental charity to assess the effect of doorstep canvassing on recycling rates in Trafford, Greater Manchester, by means of a scientifically rigorous randomised control trial that would allow the true effect of such an intervention to be isolated and evaluated.

The findings from the project demonstrated the temporary nature of people's behaviour change towards recycling, and informed policy and practice in how to maintain people's interest in recycling and what types of intervention would be most effective.

5.5 Filling the gap left by the RDAs

Finally, another view of the demise of the RDAs is that this creates an opportunity for universities to come to the forefront of helping to drive and shape economic growth in their areas and to seek funding to deliver some of the kinds of services that RDAs provided to their local area such as being the initial point of contact for investors, existing business and start-ups looking to invest in the area. Further research is needed as to whether such a model could be funded and how the benefits could be realised. This is an area that the University of Kent is looking to fill with its Business Improvement and Growth (BIG) programme, that is offering research-led support and training to local SMEs.

Related to this, universities have the skills to be able to position themselves as the main source of regional/local economic intelligence and fill the gap that has been left by the dismantling of regional structures. This role appears to be low down on how universities see their role in economic development (see figure 2.1)

LEPs should encourage universities to lend their expertise and knowledge of the local economy, and utilise their budget for local intelligence and research to further enhance universities' involvement in this area.

5.6 Summary

- In a time of economic uncertainty as funding policy for universities changes, engagement with business could offer universities an opportunity to diversify their income streams while also contributing to economic development.
- Universities need to work on initiatives that lower the cost of business engagement for both potential business partners and the university, and to extend their collaboration to SMEs in the service sector. University-run business clubs and research matchmaking services are ways of expanding and maintaining a network of local business partners. Experiments with open innovation are important in this respect.
- A policy environment that encourages localism and diversity of public provision creates opportunities for universities to expand their civic role, without committing to large amounts of additional expenditure.
- Some universities see the demise of RDAs and the scaling back of Business Link as an opportunity for universities to provide business support services. The new LEP structure provides an opportunity for universities to specialise in providing localised economic analysis and advice.

6. RECOMMENDATIONS

Based on the analysis in this report, we make a number of recommendations aimed at government and universities. We also make recommendations targeted at the new LEPs as they develop.

To support university involvement in economic growth, the **government** should:

1. Reverse the centralisation of innovation funding. Funding should be devolved down to the sub-national level to allow areas to be agile in reacting to new opportunities, to encourage spatial specialisation and to support local innovation ecosystems. As the main vehicle for driving economic growth at the sub-national level, this could be a future role for LEPs.
2. Ensure that the distribution of post-2013 European structural funds corresponds to local economic priorities and opportunities in order to deliver coherent local economic development. Rather than pursue a national ‘smart specialisation strategy’, responsibility for these strategies should be decentralised to the sub-national level. As the main vehicle for driving economic growth at the sub-national level, LEPs should coordinate this strategy, with funding and support to fulfil this role where required.
3. Be aware of the risks to some local economies from the reduction in university funding, and policy changes that might affect student numbers and the financial sustainability of some institutions. If necessary, they should be ready to act to support institutions to diversify their income base in order to be sustainable, particularly where they are the only university in an economically deprived area.

To expand their economic contribution, **universities** should:

1. Continue to build on the ways they already contribute to economic growth by:
 - continuing to expand and improve businesses engagement, in particular by marketing themselves more effectively to businesses that may not have considered university collaboration before
 - finding routes for better integration of local businesses into the university, for example through initiatives like business clubs and a matching service between local business research needs and the skills and interests of students and staff
 - continuing to improve the marketing of their capabilities in the area of workforce development to increase university share of the market and diversify their income
 - increasing the overall number of spin-out firms, and in particular increase the proportion of spin-outs in fields other than science and technology (the latter will be crucial for innovation, but spin-outs in the service sector are more likely to create jobs)
 - working with HEFCE and other key stakeholders to evaluate the impact of student enterprise support schemes to identify the best use of funding in this area.
2. Working through Universities UK, universities should champion their role in winning RGF bids and BIS should actively promote university involvement in RGF bids among potential bidders, to support further university engagement with business innovation.
3. Ensure their voices are heard as part of the debate about post-2013 EU funding, to ensure it remains a resource they can use to influence economic growth in their area. They should also continue to work through their local LEP and with other partners to bid for the current round of ERDF funding to support economic development activities in their local area.

4. Be proactive in seeking out opportunities to play a part in the governance of local institutions and the delivery of public services. The Work Programme is a major area that universities might increase their involvement in their local economies and their relationships with local employers.

As **LEPs** continue to develop they should:

1. Encourage and challenge universities in their area to contribute actively to economic development, and acknowledge that their contribution stretches beyond skills provision.
2. Encourage collaboration between universities, so each institution plays to its strengths while ensuring that all dimensions of the university contribution to economic development are actively addressed in the LEP area.
3. Provide a forum within which business and university collaboration can flourish. They should seek to facilitate greater interaction and understanding between the two sectors in order to draw on the full range of contributions that universities can make to the local economy.

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