BEIS ECONOMIC RECOVERY ROUNDTABLES

June 2020

Introduction

The N8 Research Partnership (N8) and Yorkshire Universities (YU) together represent 17 higher education institutions (HEIs) in the north of England.[1] The total student population at our universities in 2018/19 was 326,670.[2] Our members make major contributions towards the local and regional economy, and wider development, and act as key anchor institutions underpinning place-making in many cities, towns and communities within and across the north.

During the immediate response phase to COVID-19, many of our members have been instrumental in supporting the health and care sector in different ways, are engaged in the search for vaccines and treatments to tackle coronavirus, and are helping to provide the skilled workforce and key workers that are on the frontline in the fight against the virus.[3] Universities in the north of England will also be pivotal to economic recovery and the government's levelling up agenda. This submission offers some thoughts on both these issues in response to a public call by the Department for Business, Energy and Industrial Strategy[4] : N8 and YU would be happy to work with the government to progress and implement the key messages and proposals in this submission.

Innovation

1. What are the systematic barriers to business innovation? (e.g. regulatory systems, procurement or the network of contacts and exchanges that promote the sharing of ideas)

i) The metrics used to measure and incentivise business innovation

It is increasingly clear that productivity growth, measured in terms of GDP/GVA for example, cannot sustainably be used as the sole measure for the contribution of research and innovation to local economies. The contribution of business innovation to clean and inclusive regional growth will become increasingly important. A definition of regional wealth would account for the assets in the regions that underpin

[1] www.n8research.org.uk/; www.yorkshireuniversities.ac.uk
[2] https://www.hesa.ac.uk/news/16-01-2020/sb255-higher-education-student-statistics/location
[3] https://yorkshireuniversities.ac.uk/2020/06/09/yorkshires-universities-are-crucial-to-the-regions-recovery/; https://www.n8research.org.uk/n8-universities-join-the-fight-to-combat-coronavirus/
[4] https://www.gov.uk/government/news/business-secretary-leads-economic-recovery-roundtables

improved productivity and quality of life and wellbeing; such as natural capital, cultural heritage, produced capital, and human capital. This would also allow for the innovation in the arts and creative industries, as well as the retail and visitor economies to be better captured in both national and local economic development and thereby supported more effectively.

ii) Education system that supports lifelong learning and is innovation focussed

Underpinning a post-COVID recovery there is an opportunity to recalibrate the education system to be fit for a new era. Such an education system would provide citizens with entrepreneurial and growth mindsets and to encourage flexible, lifelong learning to help them keep up with the pace of change. Skills are a huge barrier to innovation adoption and diffusion; businesses need access to opportunities to upskill their employees in order to be able to adopt innovation. There is a strong link between skills and innovation that has to be aligned better and communicated more clearly at national level, innovation funding streams should directly address skills issues.

iii) The highly-centralised system for supporting innovation in the UK

The UK (especially England) is one of the most highly-centralised states and economies in the OECD. Incremental and experimental devolution in recent years has begun to provide local government, metro mayors and other institutions with new flexibilities to deliver services and investment that designed to reflect local conditions and meet the specific needs of a locality or region. What this means specifically for business innovation is:

- Local areas and regions will have more freedom to engage with businesses and universities on the issues that matter the most to particular places, thereby having a chance to direct impact locally where it is most visible or where it most matters for citizens;
- Local stakeholders and citizens can be more closely involved with business innovation to accelerate impact and create a demand-side pull for innovation, thereby increasing collaboration, openness and inclusion.

iv) Geographical inequalities in the innovation ecosystem

The innovation ecosystem in the UK has been optimised for ‘excellence’. The conceptualisation of ‘excellence’ has led to concentration of funding with networks of contacts and colleagues which have developed over decades to form an ecosystem which tends to attract more innovation funding from government and has high productivity growth.

Excellence as the driver has contributed towards the growth of inequalities geographically within the UK, producing an unbalanced national economy, with some regions becoming increasingly unsustainable whilst other places have continued to struggle economically as a consequence of managing long-term industrial decline, and with limited productive investment compared to other places.

Regions with younger universities (such as the North of England) or fewer universities (the South West of England) tend to have less access to innovation funding. Funding schemes aimed at increasing the innovation infrastructure and capacity of regions with smaller but 'excellent' capabilities tend to be insufficiently resourced to achieve transformational change.

The business innovation system and the UK economy overall is failing to mobilise and utilise all the talent that exists in places in the northern regions and elsewhere which could contribute towards helping the government reach its 2.4% GDP R&I target and help the UK address its productivity challenge.

v) Lack of gender and ethnic diversity in the innovation capacity of the UK

Equality and diversity considerations are also important. Places in the North of England are diverse in terms of health, wealth, culture, race, class and geography. Concentrating innovation capacity within a certain part of the country restricts the range of perspectives and viewpoints that can be brought to bear on economic, social and environmental challenges.

vi) Business models and regulation

Publicly-traded companies are primarily driven by the short-term need to return profits and dividends to their executives and shareholders. The largest cost for many of these companies is employees. Reducing costs and increasing productivity through increasing automation and through casual labour has been a rational response to the need to deliver short term profits. Innovation is often regarded as a cost and not an investment.

2. How can we strengthen the support provided by publicly-funded institutions?

i) Greater involvement of regional stakeholders in priority setting and decision making for these national institutions

More local input to decision-making would enable the creation and strengthening of clusters; facilitate a more systemic view of local innovation ecosystems.

3. How can government better identify and support the key technological trends?

i) Remove structural biases that exist in relation to funding schemes

Many of the UK's productivity problems lie not in the 'star performers' of industry but in the broader business base, as Phil McCann argues[5]. Structural biases exist

[5] McCann, P. (2019) 'UK Research and Innovation: A Place-based Shift', A paper for UK Research and Innovation, University of Sheffield: Sheffield.

against different sectors, industries and regions in relation to funding calls such as the Industrial Strategy Challenge Fund, which has been directed towards a narrow range of specific sectors.[6]

There is an argument that overall productivity gains could be more impactful by also supporting employment-rich and/or foundational sectors of the economy. We need to drive and inspire excellence across the country, and that means providing the supportive tools, networks, infrastructure and cultural change required for this to happen.

4. What specific actions would enhance the adoption and diffusion of innovation across the full breadth of UK businesses, including those far from the frontier?

Linkages between 'frontier' firms and local SMEs through supply chain linkages is critical to increasing demand for innovation, improving skills and diffusing the commercialisation of ideas and product and process innovation within and across a wide business base, and for encouraging business scale-ups.

Northern Accelerator is an excellent example of a collaboration between four northern universities which is dramatically increasing the number and success of spin-out.

Government investment in innovation capacity can crowd-in private investment, which is often vital to unlocking latent innovation activity. Specific actions that would enhance the adoption and diffusion of innovation include:

- More investment in collaboration-building initiatives that help to overcome the structural barriers between innovation capacity and the challenges of its place; for example time to build new collaborations between the public sector, business, educators and citizens, to build relationships and trust, to understand different priorities and language so that the contribution of business innovation to the place can be optimised. Anchor institutions, like universities, can use their convening power to enable business to business sharing and act as honest brokers in the innovation landscape;
- UKRI being more ambitious in its use of funding schemes, such as SIPF, prioritised in relation to the place agenda, with an increased number of awards which are each at a scale which can make a tangible difference over the long-term (at least £25M);
- Funding large investments in strategic localities or regions with specific intention to levelling up;
- Connecting more UKRI investment to local and regional economic strategies and devolved authorities, which can help shape and inform long-term ambition and ensure demand-side pull;
- Support more local decision-making - for example equity seed-corn funds managed locally, rather than nationally through Innovate UK;

[6] Fothergill, S., Gore, T. and Wells, P. (2017) Industrial Strategy and the Regions: The shortcomings of a narrow sectoral focus, Centre for Regional Economic and Social Research, Sheffield Hallam University: Sheffield.

- UKRI, through Innovate UK and other funding mechanisms, can facilitate and broker interactions between local knowledge base, frontier firms and local SMEs;
- Incentivising earlier adoption of innovative products and processes, particularly for clean growth, through regulation and legislation, with clear communication about the business opportunities and benefits (increasing profits/sales, reducing costs) of adopting innovation.

5. What are other countries doing better than the UK in encouraging and promoting innovation?

If innovation is to be a regional economic driver then tools for supporting innovation should be used to support regional growth.

There is clear evidence, e.g. in Germany and France, that public investment of innovation support and private investment in research and innovation are co-located. Germany is demonstrating the value of investment in innovation, with the former East German states now overtaking the north of England in economic performance, partially as a result of such investment. In France, regions have a private:public innovation funding investment ratio of around to a 2:1.

The West Midlands has a ratio much closer to 4:1 private:public innovation funding investment ratio, alongside the East of England, with the North-West of England having a 3:1 ratio.

However, the regions of the UK that receive above UK-average public investment (£ per resident) are the East of England, South East, London and Scotland. Of these only the South East and East of England attract more than the French regional average of 2:1 return on government innovation funding.

German businesses are often family owned firms with a longer term perspective and not driven entirely by short-term shareholder/stock market considerations. There is more of an incentive to re-invest in the long term future of the company in terms of skills and innovation than exists in the UK, which supports adoption and diffusion as well as innovation itself.

Net Zero

1. Which areas of infrastructure investment should we prioritise for early action to drive economic recovery and support delivery of net zero?

Priority should be given to areas where there is an existing, at-market or close-to-market solution, that will bring tangible and immediate benefit in the short term – this might include technological solutions, but should also recognise the need for sociological understanding of societal barriers and drivers as well as addressing the skills and capacity needed to deliver the change.

Examples should include building retrofit (private and commercial), supporting new green rural business opportunities, local renewable energy solutions.

2. What action should we take to align investment in the UK and globally with net zero?

Industry will primarily act for three reasons – a new process or product reduces costs, a new product or process increases revenues, or a new process or product reduces risk.

Risk can take many forms – it may be exposure to potentially changing regulations of other government mandate, or it may be another sort of risk e.g. risk of consumers moving to other brands that have greater green credentials.
Actions should align with these basic principles to incentivise business. Incentives or schemes that already support innovation should require evidencing of how the programme will contribute to reduced carbon emissions (or at least not increase them) – e.g. R&D tax credits could be limited or offered in a changed capacity for research or development that meets net-zero related criteria.

Incentives for companies developing new clean growth products and services could be offered through improved terms and conditions e.g. lower interest for loans.

3. What are the key regulatory barriers weakening incentives to invest in net zero, and how do we address them?

Flexibility and agility in regulations should be imperative. There is no single answer, rather regulatory frameworks must be reviewed sector by sector, by stakeholders, to ensure that the framework is not holding back innovation.

For example, as part of an early ISCF call for a demonstrator in local energy systems, one barrier identified was the Ofgem regulatory framework which didn't permit testing of the type that the call was demanding, however as part of the call, Ofgem had been involved and consulted with and were looking to put in place a 'sandpit' for successful consortium to use to test new designs.

In new home construction, however, despite a clear understanding of the challenges of building net-zero effective homes many challenges remain, including smaller footprints contributing to ground-water issues, continued installation of mains gas for heating, lack of solar panels as standard, lack of consideration for access to other networks. In these cases, regulation should be seen as a driver of change.

4. How can we more effectively support businesses across the economy in acting to access growing low carbon markets and support delivery of net zero?

Recent conversations with industry have led to the understanding that whilst many actors in the organisation are becoming more aware of the need for decarbonisation,

there is a wide range of staff across different professions that need improved awareness of net-zero needs and carbon literacy. In many cases, these would benefit the company directly e.g. in sales, where a cleaner message may be viewed more favourable by customers, and in customer-facing services, particularly as climate change remains a high priority for the general public, even throughout the Covid-19 crisis.

These challenges could be addressed through a regional network of skills and continuing professional development, delivered by universities and FE colleges – allowing for accreditation and recognition of personal development.

5. What actions should we take to embed net zero in local and regional economies?

Develop an understanding of the actions needed to drive consumer change – consumer-facing industries react to consumer desires through risk management strategies with respect to brands – Fairtrade is an example of where supermarkets sought to increase their market share by being associated with the Fairtrade marque and were fearful of losing market share to competitors perceived as more 'sustainable'.

Incentives could also be provided to companies to develop more sustainable supply chains, however, these incentives need to passed through the entire supply chain so that the whole-life carbon cost is not simply moved or offset elsewhere, and so that all actors in the chain can address their low-carbon needs – a systems approach to developing clean regional economies.

Investment

1. What aspects of the UK "offer" should we focus on enhancing? (e.g., specific regulatory burdens, skills gaps that disproportionately hurt investment)

The UK has a 'world-class' higher education (HE) system, and the north of England is home to 31 universities of different types and scale. HE is a major contributor to the UK economy and the balance of payments, and it is essential that it remains attractive to international students and staff.

The UK has a highly flexible labour market that has been attractive to international investors. The UK needs to retain its strengths amidst enhanced global competition for foreign direct investment and trade. We know that international firms are attracted in the main by the existence of local talent and a skilled labour market above other factors. This means connecting universities and colleges better into trade and investment strategies and ensuring that graduates, supported through their courses, are able to access new job opportunities.

2. Are there any particular types of investor, project or investment that business and HMG should prioritise for investment in the UK? (e.g., specific sectors or projects critical to the UK's future e.g. net zero, particular skills or technologies, or to locate in particular UK regions.)

We want investment coming to the UK that is long-term, durable, provides for good, quality jobs and connects to and enhances local supply chains. Different UK regions have different locational strengths, including physical assets, and so certain investments will naturally be better-suited to certain places. The north of England has world-class assets and infrastructure to support the net zero carbon agenda, leading on behalf of the whole country, and we would encourage the government to work with places, businesses, universities and other institutions in the north of England to attract more green investment where possible.

3. What specific approaches would help "land" more investment deals for the UK? (e.g., different types of senior engagement, flexibilities in local planning and transport, faster/different approaches to investor queries, better marketing of the UK "offer" – including strengths in innovation)

Collaboration on inward investment and trade opportunities and place promotion activity between universities and economic development bodies in different parts of England has at times been ad-hoc and patchy.

Adopting a more strategic approach to involving universities in place promotion activity, provides a firm foundation to widen and deepen R&I activity, especially within and across parts of the private sector. This is essential if the government is to meet its 2.4 percent R&I investment target, and its overall objectives for reversing regional inequalities are to be realised. Promoting the diverse but connected R&I assets and strengths in the north of England should form part of place promotion strategy and action. A pro-active programme of marketing and promotion as a means of overcoming negative perceptions about particular places.

The relationships that exist between universities and LEPs, Combined Authorities, metro mayors, local authorities and the Department for International Trade, aligned with broader Northern Powerhouse initiatives, provide a solid base to build upon. Metro Mayors can play a stronger role in place promotion and attracting investment to their regions. Stronger strategic collaboration provides an under-pinning framework that enables quicker and more effective responses to investment opportunities as and when they arise. It can provide a seedbed in which to stimulate the creation and incubation of new initiatives. It can also reduce duplication and inefficiency, and enable a more intelligent use of local assets, knowledge and expertise.

There are three general principles for effective place promotion that could help 'land' more investment deals:

i) Strategy and activity should reflect the unique regional context – from R&I infrastructure and physical assets to patterns of investment and trade. Regarding the latter, for example, the region's key trading partners are

Netherlands, USA, Germany, France and Belgium – which differs from nearly every other UK region. Yorkshire is the top exporter of manufacturing goods outside of London, and the region boasts the highest proportion of exports going to sub-Saharan Africa. And 58 percent of the region's exports are to the EU-27, compared to a UK average of 49 percent. The extent to which these patterns will be maintained when trade resumes following COVID-19 is unclear, however.

ii) Ensure general good practice is maintained for attracting and managing inward investment. This means learning from the practical experience of seeing projects through from inception to completion, developing a greater understanding of why firms seek to invest in the region, and focusing on job creation as well as value added and job quality rather than simply the number of jobs created.

iii) Place promotion activity should reflect and build upon existing activity and institutions at the local or city/sub-regional level, and align with Local Industrial Strategies and other strategic economic plans.

4. How can access to finance support inward investment, and what role can government play in facilitating this?

State aid will remain important to FDI. Infrastructure investment, such as access to patient capital (over the long term), via pension and insurance funds and sovereign wealth funds, will be important to leverage. More needs to be done to attract these forms of capital. Government can play a role by under-writing some of the investment, and providing loan guarantees, for example.

UKTI established the Regeneration Investment Organisation (RIO) in 2013 and it enabled over £8bn of investment into the UK – sourced from foreign and domestic investors. The RIO model supported job creation and economic growth by helping overseas investors identify funding opportunities in regeneration projects in cities and regions across the UK. The RIO team joined up with government officials seeking investment into Infrastructure projects, under the auspices of DfIT Capital Investment Team (CIT). The learning from these initiatives could be utilised and applied to help access finance to support inward investment.

5. How could we more effectively retain and expand existing UK investors' (including FDI already here) presence? (e.g., strengthening UK supply chains, building HMG relationships with them, working better with regional partners in the UK)

Strengthening supply chains. The positive effect of FDI is not necessarily limited to "greenfield" investment, i.e. the creation of a new firm, but can also arise when it takes the form of "brownfield" investment, i.e. the acquisition of an existing firm. Integration into the global network of the investing company can lead to growth of the acquired firm, expanding its production and demand for local workers. In regions that have had typically 'branch plant' economies, there is much to do, as part of the

levelling up agenda, to attract more headquarters and value-added investment and jobs.

Research on ‘educational entrepreneurialism’ has recommended more independent investment in start-up companies in Yorkshire, and measures to be put in place to incentivise greater regional and scale-up funding and increased alumni investment. Strengthening sustainable supply chain development and linkages between local and regional firms, facilitated by re-shoring, will be crucial to drive recovery and build greater resilience in the region’s manufacturing, agri-food, bio-technology and other sectors. At the same time, exports and foreign direct investment will remain vital, and should feature heavily in local recovery plans.

Levelling up

1. What are the key barriers to private sector investment in the regions? Considering how business and government can work to address these.

Lack of demand for goods and services, driven and exacerbated by higher levels of economic inactivity, lower skills, ill-health, poorly paid, precarious jobs, limited infrastructure, especially public transport (especially rail and digital) connectivity in regions in the north of England. Private sector investors are looking at the rate of return of investment, which tend to be higher in more buoyant and affluent regional economies. We need to consider how the private sector can provide more patient forms of capital to support investment. High cost of land and rent in London and the Greater South East might result in some businesses shifting activity to other regions, but we would caution against putting all our faith in traditional ‘sorting’ mechanisms to rebalance jobs and investment in the regions. Uneven development in the regions is not simply a supply-side problem.

States which favour a more spatially informed and managed approach tend to have much lower economic disparities, and, critically, higher overall levels of productivity. Policies have sought to develop stronger exploitation of local endogenous strengths within in a complicated matrix of integrated policy design, which recognises both the strengths and limitations of path dependence and lock-in’, usually within the practical context and realities of complex multi-level governance of place.

2. How can government and businesses work together to identify meaningful opportunities to invest across the Midlands, the North and the Devolved Nations?

We caution against another round of institutional disruption and the creation of new economic development institutions in the regions. Constant institutional change has hampered local and regional economic development policy in England for decades. Government and businesses should work at national, pan-regional, regional and local levels and recognise the value of genuine devolution to support efforts to level up the regions. The UK (especially England) is a highly-centralised state, and more centralisation is not the solution to solving the implications of and challenges posed by the COVID-19 pandemic. Existing mechanisms, such as NP11, Convention of the

North, etc. provide a framework on which to build. The government has advocated the creation of a Growth Company in the north of England. We need more details as to how and where this institution would fit and its accountability to local people and places.

3. How can government work with business to strengthen local business networks and ecosystems?

Local and regional institutions, such as Metro Mayors and Combined Authorities (and local authorities) know their local businesses best and we would encourage the government to give these institutions the powers, tools and resources to strengthen local business networks and ecosystems. National (central) government does have a role, but it should not be at the expense of local and regional actors.

4. How can government target skills and employment support to best aid economic recovery and drive progression and productivity, and which interventions should we prioritise?

The crisis in the region's labour market and the specific industries and sectors will require more investment and co-ordination between institutions and agents to support the training, retraining and skills development of people who have been made redundant as a result of the pandemic. In March, the government spoke of a new £2.5 billion National Skills Fund, and indicated that work was underway over how best to target the Fund. COVID-19 and its impacts will demand that public investment in skills is increased significantly in the short, medium and long-term, above and beyond the level of funding earmarked in the National Skills Fund. Educational providers of all levels in the region should be encouraged to develop stronger partnerships to support training and retraining efforts to tackle the damaging impact of unemployment.

Universities have a critical role to play in skills development and in the training and retraining of individuals who have unfortunately been made redundant. This work also encompasses working more closely with FE colleges, other education providers and businesses to drive skills that match the supply and demand trajectories of local and regional labour markets. Foresight, intelligence and analysis also plays an important role in supporting workforce planning and development, and we would encourage the government to increase the resources being allocated to local enterprise partnerships to strengthen skills and employment analysis. In particular regions, universities are also deploying their academic research to reinforce these arrangements.

The government should also give consideration as to making the existing skills system more flexible to meet what is likely to be significant demand for education and learning as a consequence of the economic crisis.

5. What could be the single most meaningful priority for business and government to work towards in order to level up? (e.g. skills, transport, science & innovation, net zero etc)

There is no silver bullet or quick fix that is likely to achieve levelling up. Regional inequalities have been a feature of the UK's political economy for over 70 years, and these disparities have got worse over the past two decades. Different regions are likely to need a mix of different interventions. Skills, infrastructure in its broadest sense, research and innovation, housing, health and care and the shift towards a net zero economy and society are all critical components. And there is growing international evidence that successful local and regional development is underpinned by effective institutions.

6. How can government strengthen the support provided by publicly-funded economic development institutions? (e.g. the role of Mayor led Combined Authorities)

More genuine devolution, including the space to experiment fiscally to attract jobs and investment. Devolution should encompass economic development functions and public services. Look to bring forward the Devolution White Paper as soon as possible to provide a framework for systematically rolling out devolution across England, especially places that are not cities or city-regions.

Start-ups and Scale-ups

Biggest challenges: other than the current COVID-19 public health pandemic, is the ensuing economic crisis (the government has so far announced a £1.25bn package of support for start-ups and scale-ups), the trade relationship between the US and China and ongoing questions about the UKs future relationship with the European Union dominate headlines and are the forefront of the minds of many businesses.

The ONS June 2020 labour market overview shows that, between February and April, around 600,000 people may have been removed from company payrolls. In addition, 8.4m people are temporarily away from a job. The number of job vacancies advertised has fallen by 60 per cent. These numbers have racked up with unimaginable speed, neither start-ups or scaleups have been exempt from this.

1. What are the most significant barriers to starting and growing a business in the UK, and what can business and Government do to address them? (e.g. regulations, costs to business, access to markets)

Barriers to starting a business

Access to funding: High % of start-ups are 'bootstrapped' meaning that there are barriers to entry (high risk for entrepreneurs) and the pipeline of entrepreneurs is not always as diverse. Furthermore, the funding landscape can be limited at an angel

stage. For SMEs: local funding can sometimes be a post code lottery (different areas offer varying levels of support/funds).

Diversity: we should aim to create a more diverse range of entrepreneurs and so more energy needs to be put into educating young and disadvantaged people on topics such as business and entrepreneurship.

Finding the right advice and relevant expertise: to help budding entrepreneurs whether this is through informal networks or more formal effective mentoring channels. Professional matchmaking schemes and peer to peer learning networks are seen as being of great help.

Barriers to scaling up a business

Access to markets, talent and skills (often commercialisation and marketing skills) and leadership are significant challenges: furthermore, where B2B and the engagement is with large corporates - information is asymmetric and procurement cycles are complex and long and can be difficult to engage with.

Importance of differentiating: the support needed between lifestyle businesses (with no ambition to grow) and businesses that are high-growth and scalable is different, but they are often grouped together.

A lot of current funding pots are attached to eligibility criteria, which excludes earlier stage businesses (such as having a proportion of income from sales, having raised investment etc.)

There is limited support (funding and advice) for businesses at the very early stage and so associated risk and difficulty is perceived to be higher than it is.

What can government do?

The key success factors are demand, access to that demand and the technical and organisational capability to meet the demand. In the context of the short (months) and medium (2-3 years) impact of coronavirus, government action to reduce the barrier of hardship due to mass unemployment through increased welfare payments will shore up collapsing demand among the population at large.

Action to stimulate B2B demand in the green economy would have essential benefits in relation to reducing CO2 emissions and tackling climate change. Lockdown has demonstrated that much business activity can be transacted through digitally-enabled remote working and online shopping, but too many employees, businesses and consumers lack reliable internet connectivity – digital exclusion is a significant barrier. Free wireless internet across towns and cities would reduce that barrier for the majority of the population.

2. What specific actions should we take to ensure the UK creates a strong pipeline of investable start-ups that have the potential to grow into future UK Unicorns?

Invest in the specific types of entrepreneurs: e.g. the MIT REAP concept of the Innovation Driven Enterprise (IDE), a type of entrepreneurship with high growth potential that is focused on bringing new to the world of innovation or innovating a business model to a global audience. The impacts of these businesses on economic growth is higher (spill over on employment across SME base). These businesses support wider job creation in the regional innovation ecosystem. Ration of 1 highly skilled job creates 8-10 other jobs.

Support is needed in the ideas stage: there is a lot of support for start-ups, less support with entrepreneurs with ideas (this is because of requirements/ criteria often require FTE growth etc. so do not apply at ideation). Develop a fail fast mentality with these stage ideas.

Provide more targeted support and advice on collaboration with start-ups/ corporates (customers).

In terms of funding - larger corporations could ‘pay it forward’ with a small tax that is used to support new businesses in non-competing sectors. More innovate UK funding should be focused on existing, high potential start-ups. More focus and funding for translation of research coming out of UK’s universities.

More teaching, support, advice around innovation and entrepreneurship for students in HE establishments.

Systemically re-train people who are made redundant/ unemployed with new skills and development into emerging markets and fields (e.g. tech, digital etc.) to meet demand in those new fields and decrease unemployment.

Proactively identify and target support to sub-groups (e.g. young people, unemployed etc.) of people who are entrepreneurial minded and have potential to start a high growth company but are not in a position (financial and otherwise) to take associated risks.

Incentivise the transition of senior management to move from larger corporations and use their knowledge for smaller ones (transfer of skills and networks).

Connect SMEs and universities more effectively, creating opportunities for graduates.

3. Beyond making sure businesses have the access to finance to support growth, what are the most critical factors for successfully growing a business in the UK? (e.g. access to talent, level of ambition, access to markets)

<u>All three: Level of ambition, Access to markets, Access to talent</u>

Equal opportunities for new businesses gaining traction in a competitive market: strip back unnecessary regulation to facilitate more rapid adoption and scaling of new and emerging technologies. The 'market' is not as open for start-ups compared to larger more established businesses. A lot of money from government contracts to procure services goes to larger organisations – government and local authorities should be incentivised to give a larger proportion of contracts (no less than (50%) to SMEs to help fuel the growth of earlier stage businesses and create a level playing field. Government underwriting of procurement contracts for start-ups and SME's from public sector organisations e.g. similar schemes exist in Canada.

Access to markets (see above). Managing the discontinuity between personal leadership of a < 50 person business and the systematised governance necessary to manage 100+ - about skills, experience, ambition, which can be addressed at least in part by university business schools.

<u>Talent and skills are fundamental to growth.</u>

Scale-ups attract international talent, with 57% employing staff from the EU and 32% employing staff from outside the EU. More than half (54%) of those currently employing staff from the EU say it is vital or very important for them to continue to be able to do so; just under half (46%) of those employing staff from outside the EU say the same.

Scale-ups employ a mix of graduates (62%), post-graduates (46%), PhDs (19%) and school leavers (30%). Half of them offer work experience and one-third of them offer internships or apprenticeships.
Among those who do not currently offer apprenticeships, a lack of resources (53%), suitable work (48%), or knowledge on where to find suitable candidates (43%) are the biggest barriers. Those who do not currently offer work experience identified similar barriers. The UK must be very clear-eyed about the skills requirements of its scale-up businesses if it is to safeguard its future economic prosperity.

Greater impetus behind the partnerships and collaborations between educators (including universities), businesses and government is necessary. Increased support for (northern) incubators and accelerators linked to universities – so as to make the most of higher education IP and offer bridging funds to help fledgling firms get to equity investment, with wraparound advice, support, networks, subsidised co-working facilities etc.

4. What more can be done to encourage businesses to invest in their own success? (e.g. capital investment, tech adoption, investing in skills, improving leadership and management capability)

Support peer-to-peer learning programmes like Knowledge Transfer Networks.

Configure the planned UK Shared Prosperity Fund to provide subsidy programmes similar to ERDF to lower the cost barrier of expert advice, capital investment, etc. – and expedite its introduction. E.g. Ad:venture, Access Innovation, Yorkshire Innovation Fund in Leeds City Region and RISE in Sheffield.

Improve leadership and management capability:

The Scale-up Business Survey 2019 shows that leadership remains a substantial issue and requires continued action. Scale-ups still perceive areas of the country which remain under-served and there is also a perception that all support programmes are London-centric. It is important to address these and maintain a local focus to help unlock good practice and share learnings across different localities.

Support for SME leaders to take up leadership & management courses, say £2k voucher per company to help with skills investment.

Invest in skills esp. digital transformation – address skills gaps.

Move away from the dichotomy of build vs build to co-create- business to business collaboration (start-up - corporate) or business to university.

Increase incentives (go beyond R&D tax credits) for Research, Development and Innovation. Make it more attractive for businesses to work with universities via innovation hubs in the north of England and to stay, invest locally.

De-risk (and simplify) the process for businesses to re-investing profits/ gains into growing their businesses further / locally.

5. How can we boost progress (e.g. develop equity finance ecosystems) in some of the hubs for fast-growing businesses outside of London? How can we support businesses through venture capital, an area where our performance outstrips that of European neighbours?

Change the perception: access to finance and location of venture capital activity is concentrated in London and the Greater South East. In 2019, this region was home to 35% of all scaleups, which is more than Yorkshire (8%), North East (3%) and North West (10%) combined.

Proactively promote & award businesses outside of London to the investment community; provide more support for regional ecosystems to evolve, and access similar opportunities but also business support to help businesses broker these conversations with investment community. The existing ecosystems still needs

further joining up. Many private sector organisations are still not aware of the LEP or its range of products and services.

A kick starter for companies. e.g. a citizen collective Investment Programme: A government run fund that protects public investment/savings but gives investment to companies with a lower IRR (5%).

Help to Grow: A government run (matched funding) public investment scheme. E.g. like the help to buy scheme but to support members of the public to invest in SMEs.

Investment Mortgages…

Supply incentives for investors (i.e. tax breaks) are already effective. Suggest looking at regions of intense business start-up activity, e.g. Bradford and Huddersfield as locations with unmet demand for investment and encouraging investors to locate in the regions. Also, while legal and political obstacles might be insurmountable, some sort of amnesty policy to make available the substantial cash reserves generated locally in the grey economies of many of our cities. This would focus on the 'atonement' of using this cash to create social value to offset the dubiety of its origins.

As a priority – government policy objectives and incentives need to be rationalised and aligned towards start-ups scaleups to ensure they are each pulling in the same direction making the best use of national resources. This could mean applying a mission led approach – linking with regional levelling up, economic recovery and environmental sustainability agendas.

Incentivise business to employ graduates via internships, placements, challenges, hackathons, problem solving and other creative, alternative methods to help retain them in the region and help with the unemployment challenge posed by COVID-19.

Champion greater ethnic and gender diversity amongst business leaders.

Contacts

Dr Annette Bramley
Director
N8 Research Partnership

annette.bramley@n8research.org.uk

Dr Peter O'Brien
Executive Director
Yorkshire Universities

p.obrien@yorkshireuniversities.ac.uk