

Business, Innovation and Skills Committee inquiry into the Government's industrial strategy

Written evidence submitted by Universities UK
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About Universities UK

Universities UK is the representative organisation for the UK's universities. Founded in 1918, its mission is to be the voice for universities in the UK, providing high quality leadership and support to its members to promote a successful and diverse higher education sector. With 132 members and offices in London, Cardiff (Universities Wales) and Edinburgh (Universities Scotland), it promotes the strength and success of UK universities nationally and internationally.

Summary:

Universities have a crucial role to play in sustaining an industrial strategy for the UK. Universities UK has included in Appendix A our separate narrative outlining the role of universities, in addition to our answers to the questions below. Our narrative highlights that there is an important window of opportunity for government to enhance the role of universities in developing and implementing an industrial strategy, through the use of targeted government funding. This will ultimately achieve a stronger and more fair UK economy, and maximise the opportunities for the UK to compete successfully on the global stage.

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Q1 What does the Government mean by industrial strategy, and what does the private sector want from one?

1. In the narrative included in Appendix A, Universities UK has outlined key strands of an industrial strategy that have been indicated by government, and how universities have a crucial role to play in each of these strands. Universities have a key role in:
 - making long-term, sustainable contributions to productivity and growth
 - creating the best possible environment for businesses to thrive
 - bringing together researchers, business and communities, and ensuring the benefits of economic growth are felt right throughout the different countries and regions of the UK
 - sustaining the world-class excellence of the UK's research base to attract businesses from all over the world to locate and invest in the UK.
2. At the heart of any industrial strategy should be creating the best possible environment for businesses to thrive, and UK universities achieve this through encouraging business investment and innovation and meeting the demands of business through a strong supply of higher-level skills. UK universities are also fundamental in attracting international businesses to locate and invest in the UK, through maintaining the UK's global leadership in science and research.
3. The narrative in Appendix A outlines opportunities for strengthening the role of universities in achieving the aims embedded in an industrial strategy, and ultimately securing the success of the UK on the international stage.

Q2 How interventionist in the free market should Government be in implementing an industrial strategy, for example in preventing foreign takeovers of UK companies?

4. There are clear examples where the free market fails and the government has a role to play:
 - businesses invest too little in research and development as they consider only their own benefits and not the overall benefits to the economy and society
 - businesses can be risk averse in times of uncertainty and invest too little more generally
 - there may be coordination failures due to the competitive environment, with businesses not always collaborating where it might be fruitful to do so
 - there may be imperfect information, so businesses may not always be able to easily source the right set of skills to meet their needs
 - the benefits of economic growth may be felt unevenly across regions and local areas of the UK.
5. In the narrative included in Appendix A, we outline how government can address these failures, through targeted use of public funding, in order to achieve a stronger and more fair UK economy, which can compete successfully on the global stage. The role of UK universities is central to this.

Q3 What lessons can be learnt from:

• Previous governments' industrial strategies?

6. Previous strategies have recognised that the research and innovation strengths of the UK economy are closely intertwined with the success of UK businesses and international competitiveness. The focus on international education in the previous industrial strategy rightly recognised the importance of the global reputation of UK universities and the benefits that drawing the world's top talent has to UK jobs and growth.
7. With a new industrial strategy, there is an opportunity to develop clear cross-government objectives. As we mention in our answer to question 4, tensions can sometimes exist across different government policy areas – for example, an intention for growing education exports could clash with goals on immigration. An industrial strategy should recognise these tensions and set out a clear and consistent way forward.
8. The UK's recent experience shows that industrial strategies can give private investors' confidence to invest in the long term. The coalition government's eight great technologies, for example, have helped kick-start the substantial growth and international reputation of UK aerospace.

• Other countries' attempts to develop industrial strategies?

9. International evidence and best practice should be used as much as needed in the development of an industrial strategy. However, the unique nature of the UK's economy and political environment means that overly simplistic international comparisons should be avoided. One-size does not fit all. Differences between the UK with other countries should be recognised, relative advantages built upon and relative disadvantages mitigated. For example:
 - The UK is among the top countries in the developed world for the proportion of R&D income received from abroad¹. However, other countries are raising domestic research spending to attract more R&D investment from abroad. With the UK exiting the EU potentially impacting the pattern of international research collaborations, it will be important to sustain the success of UK research through increased investment in the research base and a coherent international collaboration strategy.
 - The UK's service-oriented economic base combined with a relative shortage of research and innovation funding and finance compared to our competitors means a successful industrial strategy should include some fresh thinking around how these systemic constraints can be relaxed. Simply replicating the policies and strategies adopted by countries with long track records in innovation, growth and exports – such as Switzerland, Germany or the so-called Asian Tigers – is unlikely to be a fruitful approach.
 - The UK should make the most of the work already done on developing smart specialisation strategies (in England and internationally) and the opportunities created by devolution in England.

¹ OECD (2016) [Main Science and Technology Indicators database](#), Data extracted on 29 Sep 2016 from [OECD.Stat](#)

Q4 What tensions exist between the objectives of an industrial strategy and the objectives of other policies, and how should the Government address these tensions?

10. One main tension that potentially exists is between the timescale of an industrial strategy and government policies designed to promote long-term economic growth. An industrial strategy may be focussed more on the short-term, and on delivering visible progress, which could clash with longer-term policies designed to address investment in infrastructure and underlying structural growth of the economy. To avoid this tension, it would be desirable for the government to develop both a long-term vision for the UK industrial base covering the next decade – with appropriate periodic review mechanisms – and a set of demonstrable, realistic intermediate milestones against which progress towards that long-term vision can be reviewed.
11. Tensions can also exist across different government policy areas – for example, an intention for growing education exports could clash with goals on immigration. As mentioned in our answer to question 3, an industrial strategy should recognise these tensions and set out clear cross-government objectives.
12. The industrial strategy also needs to be consistent with the government’s strategy for exiting the EU, and flexible enough to accommodate the changing political environment. Universities UK believes that government support is needed in order to create the conditions for the university sector to contribute most fully to the UK’s economic success and global influence outside the EU. Support is needed across the following areas:
 - Enhancing international research collaboration
 - Making the UK an attractive destination for talent
 - Increasing public investment in research and innovation
 - Supporting UK students and staff to access vital global opportunities.

Q5 What are the pros and cons of an industrial strategy adopting a sectoral approach?

• Should the Government proactively seek to ‘pick winners’?

13. An approach designed to ‘pick winners’ at the expense of seemingly declining domestic industries can be both highly risky and counterproductive. The UK learned this the hard way when it missed the chance to build on its leadership in semiconductor research, which was de-prioritised by the government and resulted in a number of companies shifting their focus overseas, to the East. This together with other global influences led to the collapse of the semiconductor industry in the UK and especially in the north east of England.²
14. Picking winners is unlikely to be effective in addressing the UK’s long-term relatively poor productivity performance – a cross-economy approach that builds on the UK’s well-established strengths (such as our globally successful research base) while addressing our weaknesses is a more sustainable strategy.

² Professor Sir Christopher Snowden, cited in BIS (2013) [Leverage from public funding of science and research](#), report by Dr Sarah Main

• What criteria should be used to identify which sectors are supported?

15. Based on the evidence available, the UK is a global leader in science, innovation and attracting students from overseas. Any approach to identifying sectors should make the best use of the evidence. Sector strengths in science and innovation could be identified from the evidence available, including the government Science and Innovation Audits, the work of the Smart Specialisation Hub, and evidence used by Innovate UK, the higher education funding councils and the Research Councils for making investment decisions (as these cover both demonstrated research and impact excellence, as well as future potential).

• Should the Government prop up traditional industries that it considers to be in the national interest?

16. The legacy of traditional industries should be appropriately recognised, while also considering whether an industry can be reasonably sustained in the longer term given changes to the global and economic environment. The government should adopt an approach that considers how developments in innovation and higher-level skills can help traditional industries evolve and grow. Universities can play a role in achieving this, as shown for example, by the University of Derby's successful higher apprenticeship scheme in Mineral Products technology, designed in partnership with industry organisations and leading professional bodies in that sector³.

• If not a sectoral approach, should the industrial strategy have a broader objective, such as improving productivity?

17. Although the two approaches are not per se incompatible and an assessment of economic strengths will inevitably bring some level of sector prioritisation, the pattern and nature of the UK's economic weaknesses mean that the main emphasis of the strategy should be on developing a coherent, cross-economy approach driven by overarching objectives – particularly on productivity, innovation and international competitiveness.

Q6 Should the industrial strategy have a geographical emphasis?

• How should an industrial strategy link with devolution initiatives aimed at devolving taxation and decision making away from Westminster?

18. As outlined in the narrative in Appendix A, an industrial strategy should ensure that the benefits of economic growth are shared by all – right throughout the different countries and regions of the UK. Universities have a crucial role to play in boosting local economic growth and ensuring a dynamic labour market that benefits local employers and employees. We outline proposals in the narrative in Appendix A on how universities can help ensure a greater balance of growth across local areas.

19. Good practice and lessons learned around forming strong regional links should be recognised as part of an industrial strategy. This includes long standing university engagement with Local Enterprise Partnerships and Combined Authorities, support for locally-driven strategic planning and investment, and funding support (such as currently provided through European Structural and Investment Funds and the Local Growth Fund) that encourage universities, businesses and local authorities to work together and unlock further investment.

³ UKCES and UUK, 2014, [Forging Futures: Building higher level skills through university and employer collaboration](#), report by CFE research

• What examples are there of interventions from central Government that have successfully supported economic growth away from London and the South East of England?

20. The Higher Education Innovation Fund (HEIF) has supported a wide range of local and regional growth initiatives. For instance, Sheffield Hallam University used HEIF to co-fund Innovation Futures, a scheme which has helped hundreds of small and medium businesses across Yorkshire to access innovation and R&D services, generating nearly £15 million of Gross Value Added for the region⁴.
21. In addition, the Higher Education Funding Council for England's Catalyst fund has also successfully supported several higher education and further education-led projects serving local growth objectives outside London and the South East. These include, for example, BioVale in Yorkshire and the Humber, a partnership of local academic, industrial and public sector partners which aims to build on the region's world-class strengths in the bioeconomy to establish an internationally recognised centre for renewable raw materials and agri-tech⁵.
22. The Local Growth Fund has been effective in supporting investment in local skills and infrastructure priorities across England, and many universities are active partners in these projects. Examples include the MIRA Enterprise Zone Skills Centre, delivered in partnership with North Warwickshire and Hinckley College, University of Leicester and Loughborough University. The centre will equip people with the skills to work in advanced transport engineering, a growing sector in Leicestershire and the surrounding area⁶.

• How should the industrial strategy work with local authorities and Local Economic Partnerships, reconciling a U.K.-wide strategy and local, regional and devolved nations' priorities?

23. As local anchor institutions, universities are taking the regional growth agenda seriously. Thanks to their strong regional engagement and links to national and international policymakers and economic partners, they are ideally placed to help reconcile industrial priorities at different geographical levels. Of the 50 responses submitted to a previous inquiry on the Northern Powerhouse and Midlands engine, a quick count suggests that at least a quarter are written by a university, a university group, or an institute based out of a university. Because of their strong efforts in public engagement, universities can also help ensure that the needs of their local communities are appropriately reflected in the development and implementation of the industrial strategy.
24. Further details are included in our narrative in Appendix A as to how government could best support universities working with local businesses, employers and the community, through changes to the Higher Education Innovation Fund.
25. It is important that, in developing the industrial strategy, the government sees universities as a key partner and ensures their input – which draws on in-depth knowledge of local needs and strong networks – is sought as appropriate.

⁴ HEFCE, 2014, [Knowledge Exchange Performance and the Impact of HEIF in the English Higher Education Sector](#), report by TC Ulrichsen; International Innovation (2015) [UK Innovation Hub: Sheffield Hallam University](#), issue 173

⁵ HEFCE Catalyst Fund projects, [University of York: Biovale](#), last updated: 19 August 2016.

⁶ Cabinet Office and Deputy Prime Minister's Office, [Leicester and Leicestershire Growth Deal](#), last updated: 29 January 2015

APPENDIX A

The role of universities in sustaining an industrial strategy for the UK

The evidence demonstrating the impact of universities on the UK's long-term growth potential is well established - through meeting the higher level skills needs of the economy, spurring technological change through research and development, and enabling local economic growth and innovation.⁷ In addition, UK universities, as an economic sector, generate £73 billion for the UK economy each year, and contribute 2.8% of GDP.⁸ The £73 billion estimate does not include universities' contribution to skills, research and local growth – so the overall impact of UK universities will be far in excess of £73 billion each year.

The government has recognised that it should deliberately take a strategic approach to business and the economy, underpinned by an industrial strategy. The Secretary of State for Business, Energy and Industrial Strategy has indicated that a strategy implies a number of things⁹:

- a long-term, predictable and sustained approach to policy making
- active promotion, and defending, of a successful environment for business
- connecting disparate forces, between government and business, between industries and places, between research and practice
- capitalising on strengths while seeking new opportunities to make our way in the world.

Universities have a prominent and crucial role to play in each of these four strands of an industrial strategy. They have a role in:

- making long-term, sustainable contributions to productivity and growth
- creating the best possible environment for businesses to thrive
- bringing together researchers, business and communities, and ensuring the benefits of economic growth are felt right throughout the different countries and regions of the UK
- sustaining the world-class excellence of the UK's research base to attract businesses from all over the world to locate and invest in the UK.

An industrial strategy needs to be consistent with the government's strategy for exiting the EU. Universities also have a role in contributing fully to the UK's economic success and global influence outside the EU, through enhancing international research collaboration, attracting top talent from across the world, and supporting UK students and staff to access vital global opportunities.

Underpinning long-term economic growth

- **Sustaining investment in infrastructure:** Universities will need to continue their plans for investment in research and teaching facilities, in order to sustain their long-

⁷ Evidence demonstrating the impact of investment in universities has previously been published by UUK in the run up to the 2015 Comprehensive Spending Review. See Universities UK, 2015, [Why invest in universities?](#) and [The economic role of UK universities](#)

⁸ Universities UK, 2014 [The impact of universities on the UK economy](#), report by Viewforth consulting

⁹ Speech by Rt Hon Greg Clark MP at the Royal Society on 1 August 2016

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term contributions to economic growth through skills, research and innovation. Continued investment in infrastructure will be essential in order to meet the needs of students and retain the UK's world-leading research reputation. In addition, capital expenditure by universities could be a source of sustained demand for the construction industry during a time when there may be uncertainty from other sources of demand. Enhancing universities' ability to invest in infrastructure would provide a relatively rapid fiscal stimulus compared with stimulating other forms of investment in infrastructure (such as transport, housing, roads).

Creating the best possible environment for businesses to thrive

- **Encouraging business investment and innovation:** Businesses may be more reluctant to invest in times of uncertainty, and not invest sufficiently in research and development. This can dampen short-term, as well as longer-term, economic growth. The uncertainty arising from the UK existing the EU therefore has the potential to affect short and long-term economic growth. However, university-business collaborations have proven relatively resilient to economic fluctuations, so may be a useful channel by which to encourage business innovation.¹⁰

Increased public investment to support collaborative research and partnerships between universities and business may promote access to the UK's world-class research base and provide much needed confidence to businesses to invest and innovate. A 10% increase in university research is estimated to increase private R&D investment by 7%.¹¹

- **Meeting the demands of businesses through supply of higher-level skills:** Universities are the main contributor to the higher level skills necessary for the UK to thrive as a knowledge-based economy, with graduates from UK universities in high demand not only from UK employers but abroad as well. Latest survey results show that only 5% of UK and EU domiciled graduates in 2015 were unemployed, with 71% of full-time first degree graduates employed in professional occupations.¹² Only 2.6% of 25-64 year olds with a bachelor's degree were unemployed in the UK in 2015, compared to an OECD average of 5.3%.¹³ It will be important for universities to continue to provide the supply of high-level skills required by businesses to maximise their productivity, profitability, and contributions to economic growth.

Ensuring the benefits of economic growth are shared by all

- **Boosting local economic growth:** 373,794 full time equivalent jobs are directly dependent on universities, and 757,268 full time equivalent jobs dependent on the expenditure of universities.¹⁴ The evidence shows that a doubling of universities in a region increases GDP per person by 4% to 5% on average¹⁵. Therefore, universities play a key role in enhancing local economic growth, right across the countries and regions of the UK. Annexe 1 includes examples of how they are doing this.
- **Ensuring a dynamic labour market that benefits all:** higher education is a key equalising mechanism, providing a significant route for those from more disadvantaged

¹⁰ HEFCE, 2016, [Higher Education – Business and Community Interaction survey 2014-15](#)

¹¹ Jaffe and Trajtenberg, 2002, Patents, Citations and Innovations: a window on the knowledge economy; and Jaffe, 1989, Universities and Regional patterns of Commercial Innovation

¹² Higher Education Statistics Agency, 2016, [Destinations of Leavers from Higher Education 2014-15](#)

¹³ OECD, 2016, [Education at a glance 2016](#)

¹⁴ Universities UK, 2014 [The impact of universities on the UK economy](#), report by Viewforth consulting

¹⁵ Valero, A, and Van Reenen, J. (2016) [The Economic Impact of Universities: Evidence from Across the Globe](#), CEP Discussion Paper No. CEPDP1444, August 2016

backgrounds to improve their life chances, opening up of career pathways and job opportunities¹⁶. Concerns were expressed prior to and after the Brexit vote that the gains from globalisation are not reaching all socio-economic groups and local areas need addressing. This could be through renewed efforts to ensure all those with the ability to go to university do so, and ensuring employers in all areas are able to recruit sufficient graduates to meet their business needs.

Ensuring the UK is the location of choice for global businesses and investment

- **Encouraging international businesses to stay, and relocate, to the UK:** The evidence is clear in showing that knowledge-intensive clusters of businesses are attracted to locate near the top talent and research generated by universities.¹⁷ Post-referendum vote, GSK has announced nearly £300m of increased investment in UK manufacturing sites. Therefore, maintaining the UK's world-leading reputation in research¹⁸, through increased public investment in research, would provide a low-risk and sustainable way to enhance the UK's attractiveness to the rest of the world and underline that the UK is the prime location of choice for knowledge-intensive businesses.
- **Encouraging foreign direct investment:** The UK has long been one of the world's top destinations for foreign direct investment. Related to this, higher education export earnings are currently estimated at £10.7 billion, with the UK being the second most popular destination for international students.¹⁹ The UK has one of the highest proportions in the OECD²⁰ of domestic R&D financed from abroad, and this is in large part down to foreign investors investing in research carried out by universities. So once again, increasing public investment in research would provide a relatively straightforward means of directly supporting the UK's capacity to attract foreign direct investment, supporting UK researchers in developing long-lasting collaborations and helping consolidate the UK's new position on the world stage. Ensuring the UK is an attractive destination for the world's top talent, through reforming the immigration system, should also be considered a priority.

¹⁶ UUK, 2016, Forthcoming report of the Social Mobility Advisory Group

¹⁷ Universities UK, 2015, [The economic role of UK universities](#)

¹⁸ With only 0.9% of the world's population and 4.1% of researchers, the UK research base accounted for 9.9% of downloads, 10.7% of citations and 15.2% of the world's highly cited articles in 2014.

¹⁹ Universities UK, 2014 [The impact of universities on the UK economy](#), report by Viewforth consulting and OECD, 2016, [Education at a glance 2016](#)

²⁰ OECD, 2016, [Main Science and Technology Indicators](#), updated June 2016

Opportunities for enhancing the role of universities to implement an industrial strategy for the UK

There is an important window of opportunity for government to maximise the contribution of universities in developing and implementing an industrial strategy for the UK. Opportunities include:

Underpinning long-term economic growth

- Enhancing universities' ability to invest in teaching and research infrastructure. This could be through the provision of additional capital funding to universities.

Creating the best possible environment for businesses to thrive

- Incentivising business investment and innovation through enhanced support of collaborative research and partnerships between universities and business. This could be through additional public investment in the research budget.

Ensuring the benefits of economic growth are shared by all

- Boosting local growth through support of universities working with local businesses, employers and the community. This could be through increased investment in the Higher Education Innovation Fund. This could also help ensure employers in all areas are able to access and employ the graduates they need.
- Sustaining support for widening participation activities undertaken by universities

Ensuring the UK is the location of choice for global businesses and investment

- Increasing public investment in research and innovation, including a real terms increase to the research budget. This increase could be, in part, directed to enhancing the UK's international research collaboration and supporting UK researchers and students access vital global opportunities.
- Establishing a cross-Government international research strategy
- Making the UK an attractive destination for talent, by reforming the immigration system to ensure the most talented and entrepreneurial staff, students and academics globally can come to the UK.

Enhancing investment in teaching and research infrastructure

The opportunity: additional public investment to support teaching and research infrastructure would ensure that universities can sustain their long-term contributions to economic growth, through consolidating the UK's reputation for providing a world-class learning experience and world-leading position in research. It would also be a low-risk, long-term investment in infrastructure that generates relatively quick results in terms of a fiscal stimulus compared with alternative investments in infrastructure.

The vast majority of investment in new facilities and refurbishment is funded by universities themselves – by 2017-18, 75% of capital expenditure by universities in England will be funded through their own cash. Borrowing will be the second most important source.²¹ Examples of projects in the pipeline include:

²¹ HEFCE, 2015, [Financial health of the higher education sector: 2014-15 to 2017-18 forecasts](#)

- **The University of Gloucestershire's £20m Oxstalls campus redevelopment**²², including a new Business school building accommodating 2,000 additional students, improvements to the sports facilities and investment in the HEI's Growth Hub. This is estimated to generate an additional £77.5m GVA per year for Gloucestershire by 2020-21, which translates to an additional 2,199 jobs supported within Gloucestershire a year.
- **University College London's UCL East**²³, a new campus due to open in 2019-20 at Queen Elizabeth Olympic Park in Stratford with support from the European Investment Bank (£280m) and UK Government (£152m). This will allow UCL to offer a larger, more accessible campus to 3,000 additional students, and pioneer a radical new approach to cross-disciplinary working. The site will be part of a new cultural and education district expected to generate 3,000 jobs in the Park and an extra £1.8 billion of economic value in the area.
- **Newcastle University's new Learning and Teaching centre**²⁴ in the Science Central complex, to be opened in 2019. This £34m investment will deliver cutting-edge teaching, study and conference space which can be flexibly reconfigured to create rooms of different sizes. When completed, the Science Central complex as a whole is expected to create around 4,000 jobs.
- **The University of Manchester's Engineering Campus Development**²⁵, which will deliver improved multidisciplinary research and teaching facilities, an improved student union, a new Medical School and a refurbished library. Due to be opened in 2020, this £350 million self-funded investment is one of the largest single construction projects ever undertaken by a UK university, and expected to generate 2,586 jobs over the construction period (2016-2019) alone.

Uncertainties for universities around student recruitment and research income, arising from the UK exiting the EU, may have an impact on the ability of universities to finance their capital expenditure. Any surpluses generated, the main source of internal financing, may dissipate if unanticipated shocks to revenue occur.

Some universities have utilised funds available through the European Investment Bank to finance the building of infrastructure – universities will be reluctant to pursue this channel now given uncertainties around access and terms and conditions in the near future. In addition, some universities have received funding via European Regional Development Funds (ERDF) and European Social Funds (ESF). Since 2011 over €2.6 billion in European Investment bank loans has been received by universities and since 2003-4 more than £1billion from the ERDF and ESF.

Since the referendum vote, eight universities have had their credit status modified, with S&P Global Ratings modifying the ratings of two universities, and Moodys changing the outlook for six universities. This is an indication that universities' access to financing, and the cost of financing, may change.

This may result in universities needing to put on hold, withdraw, or decide against plans for future capital expenditure. This would impact on the activity levels of the construction industry, the quality of teaching and research facilities, and ultimately the quality of the student experience and the UK's global research standing. Particularly vulnerable is the

²² Sources: [University of Gloucestershire](#), [BiGGAR Economics](#)

²³ Sources: [UCL](#), [Queen Elizabeth Olympic Park](#)

²⁴ Sources: [University of Newcastle](#), [ITV News](#)

²⁵ Sources: [University of Manchester](#), [Manchester City council](#) (2 June 2016 meeting, Item 13 report)

amount of finance available for teaching infrastructure. Since 2008, direct government funding for teaching capital has dwindled to very small amounts.²⁶

The Research Partnership Investment Fund (RPIF) has been highly successful in government funding leveraging external investment in research infrastructure. Since 2012, over £500 million has been allocated, attracting £1.4 billion of external investment. Additional investment in RPIF has the potential to leverage even more external investment for new projects. It would also help replace the funding opportunities lost from European sources. Alongside this, a fiscal stimulus by way of additional spending on teaching and research infrastructure, through direct strategic investments to universities, would be highly effective. Funds would be directed to ‘shovel-ready’ projects that may be on hold due to uncertainties in the economic environment.

Increasing public investment in research and innovation

The opportunity: a real terms increase in the research base would consolidate the UK’s world-leading research reputation, maximising the UK’s attractiveness to international businesses as the world-wide location of choice, and maximising inward investment into the UK.

The increase could directly benefit collaborative research and partnerships between universities and businesses, and incentivise business investment. The increase could also enhance the UK’s international research collaboration, and extend the UK’s access to global technological developments.

The benefits of the UK’s research reputation are well established, as is the evidence showing that the UK consistently invests well below the OECD average in research and development.²⁷ These benefits have never been more important than in the context of the UK exiting the EU – and must be sustained. However, the UK’s protracted under-investment in research and development calls into question how long the UK can continue to reap these benefits, when arguably the UK needs these benefits even more than before. Current uncertainty regarding the UK’s future ability to access EU research funds represents an additional challenge.²⁸

The Spending Review protected the research budget in real terms. However, a real terms increase is what is needed if the UK is to sustain the benefits of our world-class research base. Carrying out more, and even higher quality research is a simple and straightforward way of boosting the UK’s comparative advantage – consolidating the UK’s role as the partner of choice for research collaborations, and attracting foreign investment and businesses to locate in the UK.

Part of a real terms increase could be directed to increased collaborative research between universities and business, to stimulate business investment and innovation at a time when businesses may be reluctant to invest more generally. A 10% increase in university research is estimated to increase private R&D investment by 7%.²⁹ Businesses that collaborate with the research base invest more in R&D and perform better at innovation that

²⁶ The latest allocation from HEFCE to institutions in England for 2016-17 was £126 million.

²⁷ For a summary of the evidence, please see Universities UK, 2015, [Why invest in universities?](#) and [The economic role of UK universities](#) and OECD, 2016, [Main Science and Technology Indicators](#).

²⁸ The proportion of UK university research grant income from EU sources has steadily increased from 11.6% in 2010-11 to 14.1% in 2014-15.

²⁹ Jaffe and Trajtenberg, 2002, *Patents, Citations and Innovations: a window on the knowledge economy*; and Jaffe, 1989, *Universities and Regional patterns of Commercial Innovation*

firms who do not.³⁰ It would be highly beneficial to the UK to innovate through new ways of working (for example, decreased exposure to currency fluctuations) and to strengthen activities around intellectual property, given the new global context that UK businesses will need to operate in.

Part of the real terms increase could also be directed to driving forward research collaborations with international partners, to maintain and increase the UK's influence on the international stage, and to support UK researchers and students in accessing vital global opportunities. Almost 50% of UK academic papers are written with an international partner, and internationally co-authored publications have been shown to have greater reach and higher rates of citation than those with only domestic authors³¹. Examples of initiatives could include:

- Building on the disparate funding mechanisms which exist for international collaboration currently as part of a new international research strategy
- Investing in additional bilateral and multilateral research and innovation initiatives with key partners
- Investing in international mobility programmes for UK researchers and students, with quantitative targets for percentages accessing international opportunities.

Enhancing universities working with local businesses, employers and the community, through the Higher Education Innovation Fund (England)

The opportunity: additional public investment in the Higher Education Innovation Fund in England could be directed towards universities building on the existing work they do with their local employers, businesses and the community, and ensure a greater balance of growth across local areas in England. A focus of the investment could be on ensuring employers in all areas are able to access and employ the graduates they need, and building local collaborations between businesses.

The latest data shows that growth in income relating to interactions between universities, businesses and wider stakeholders grew 6.2%.³² Growth in this income stream has proven to be resilient to the effects of the economic downturn, with particularly strong increases since the economic recovery.

Given the new global environment, there may be a need for UK businesses to develop closer links and partnerships locally and regionally, in order to build critical mass to operate in overseas markets and attract foreign direct investment. There is also a need to mitigate the impact of potential changes in accessing European Regional Development Funds (ERDF) and European Social Funds (ESF).

To ensure a more balanced distribution of growth across local areas in England, it will be necessary to ensure that small, medium and large local employers have access to recruiting the skilled graduates that they need. Within six months of leaving university in 2014-15, 55% of in-work first degree graduates took up employment in the same region as their university. The proportion of 'stayers' varies widely by region - just 37% of those from East Midlands-based universities took up employment there, as compared to 69% of London university graduates.

³⁰ Department for Business, Innovation and Skills, 2014, [Estimating the effect of UK direct public support for innovation](#)

³¹ Department for Business, Innovation and Skills, 2013, [International comparative performance of the UK research base](#)

³² HEFCE, 2016, [Higher Education – Business and Community Interaction survey 2014-15](#)

An opportunity exists for universities to act as a key coordinating mechanism to achieve closer local links locally and regionally between UK businesses, and ensure local employers have access to the graduates they need. Universities already play a key role in working with local businesses (Annexe 1) and local employers (Annexe 2). They could build on these roles by:

- acting as a hub to bring together local businesses, working with Local Enterprise Partnerships, and to explore avenues for greater collaboration in accessing international markets.
- extend their reach to local employers, and ensure every employer that wishes to recruit locally has the opportunity to access local graduates.

This could be achieved through support via increased investment in the Higher Education Innovation Fund (HEIF), which has a proven track record in driving collaborations between universities, business and the wider community – with a return of £7.30 to the taxpayer per £1 spent.³³ Further investment in HEIF provides a very real practical way for government to strengthen the UK's ability to compete on the international stage, while supporting local and national growth.

Sustaining support for widening participation activities undertaken by universities

The opportunity: sustaining government funding relating to support of widening participation activities and high cost subjects is essential that the labour market continues to be supplied with the high-level skills needed for the UK to compete internationally, and to ensure that the benefits are reaped as widely across social groups as possible.

The 2015 Spending Review committed to protection of teaching funding for high-cost subjects in real terms. Overall teaching funding will be reduced by £120 million in cash terms by 2019-20, with funding for widening participation to be retargeted and reduced by up to half. This continues a trend of a decrease in direct government funding for widening participation and an increase from university sources, particularly their additional (portion of fee above £6,000) fee income.

While the balance of funding has shifted from direct public funding to tuition fee income, it is important that an element of direct public funding for widening participation continues, for the following reasons:

- The competitive environment may lead to institutions spending less on widening participation activities than desired. Evidence submitted to the Independent Student Funding Panel showed that there will be competing priorities for the use of fee income, for example, running surpluses to manage year on year uncertainty in student numbers or to invest in capital expenditure³⁴.
- The competitive environment can also lead to less collaboration between institutions due to increased competition for student numbers, particularly at the local level³⁵; however, collaboration is key to improving access for underrepresented student groups.
- Institutions who recruit a greater proportion of students from underrepresented groups face additional costs in delivering support to them. Students with lower 'traditional' qualifications (such as A-levels), non-traditional qualifications (for

³³ Centre for Science, Technology and Innovation Policy, University of Cambridge, 2015, [Assessing the Economic Impacts of the Higher Education Innovation Fund](#)

³⁴ Student Funding Panel, 2015, [An analysis of the design, impact and options for reform of the student fees and loans system in England](#)

³⁵ HEFCE, 2013, [Literature review of research into widening participation](#)

instance vocational Level 3) or no formal entry qualifications are most at risk of withdrawing early from their studies and not fulfilling their potential; as such these students may require more support to achieve the best possible outcomes. This additional support, which can include academic as well as pastoral support, incurs additional costs for institutions. These institutions may also face financial constraints in meeting these additional costs if they are unable to increase their fees to the fee cap (for example, due to student demand).

While an element of public funding should continue, how this funding could be best allocated in the future needs revisiting. Universities UK has been leading a Social Mobility Advisory Group to provide advice to the government and support for universities to improve access and long-term success for underrepresented groups in higher education. The Group will make its recommendations in October 2016. A theme emerging from the Group's work is that a more systematic use of evidence of what works should be made in shaping public funding interventions and requirements linked to access and participation agreements.

Access to finance is also an important factor in supporting underrepresented groups in higher education, and it is very positive that the government has made important steps forward to recognise the diversity in needs of learners. For example, the age limit of 60 for postgraduate Masters' loans and availability to part-time students, and plans to extend maintenance loans to part-time students recognise that different groups of students have different needs. Any future government initiatives (such as the introduction of doctoral loans) ought to be as flexible as possible in order to help achieve government goals on widening participation and social mobility.

Widening participation funding is one main part of remaining teaching funding directly provided by the government, funding of high cost subjects is the other. Continuing the protection for high cost subjects is absolutely essential in order for the supply of graduates in these subjects to be sustained. Universities are broadly just breaking even in terms of covering their costs of educating UK and EU undergraduate and postgraduate taught students, and taking into account high-cost subject funding³⁶. Given the reforms to the training of health professionals, and government ambitions for increased numbers³⁷, the government may wish to consider whether protection of the overall amount in real terms is sufficient. Protection in real terms of funding per student would be a much stronger policy to match the government's level of ambition for increased numbers of health professionals.

Enhancing the UK as an attractive destination for talent

The opportunity: Addressing the immediate uncertainties associated with Brexit to protect and encourage continued recruitment from EU countries, as well as avoiding the administrative burdens currently associated with international student recruitment, should be a fundamental pillar of any initiative to attract talent to UK HE and ensure the associated benefits to British society and the economy.

The UK's outstanding global reputation for providing high-quality education is sought by students the world over, with the UK currently second only to the US as a destination for international (non-EU) students. International students make a £7 billion³⁸ contribution to the economy, and enrich campuses both academically and culturally. Many return home having forged strong professional and personal links that provide long-term, soft-power benefits for the UK. The UK exiting the EU provides an opportunity to ensure that EU and non-EU

³⁶ HEFCE, 2016, [Financial health of the higher education sector: Financial results and TRAC outcomes 2014-15](#)

³⁷ It is envisaged that 10,000 additional nursing, midwifery and allied health training places will be created by 2020

³⁸ Universities UK, 2014 [The impact of universities on the UK economy](#), report by Viewforth consulting

students alike are able to continue to come to the UK to study without unnecessary bureaucratic burdens.

Some of the changes to the Tier 4 student visa system since 2010 have created a perception that the UK is not 'open for business', noticed in key international markets such as India – the UK's second largest market and from where student numbers have more than halved since 2010. Competitor countries such as Australia and Canada have taken advantage of the stagnation in recruitment in the UK, and are reaping the benefits with annual growth of 8% compared to a 2% fall for the UK. If Britain is to meet the government's own target of increasing total education exports to £30 billion by 2020, it needs a new approach to immigration that is proportionate and welcoming to genuine international students.

The government has an opportunity to reshape the immigration system to recognise the value of international students as temporary visitors and to remove unnecessary barriers for highly-skilled international staff wanting to work at UK universities. This can be achieved by:

- Reforming the immigration system to ensure the most talented and entrepreneurial staff, students and academics globally can come to the UK, regardless of their nationality
- Launching an international student strategy, backed by investment to support international marketing, mobility and partnerships globally including a quantitative target to increase HE export earnings
- Confirming that EU students and staff will continue to be able to come to the UK to work and study without unnecessary administrative burdens following exit.

The role for public investment in universities, in a world of higher tuition fees

UK universities are no longer predominantly reliant on government sources for funding, with only just over one quarter of total income coming from public sources.

However, an important difference exists between funding for teaching, and funding for research – while only 18% of income for teaching comes from government sources, 66% of income for research comes from government.³⁹

There is also an important difference between the cost recovery of universities between teaching and research. While UK universities broadly broke even in covering their full economic costs of teaching UK and EU undergraduate and post-graduate taught students in 2014-15, they made a £3 billion loss in covering the costs of their research activities.⁴⁰ Full economic costs include ongoing running costs as well as maintaining and replacing infrastructure.

Given the increase in the fee cap to £9,000 in 2012, a reasonable question to ask is why is it that universities are only breaking even in covering the costs of teaching UK and EU undergraduate and post-graduate taught students? This is because at the same time the fee cap was increased from £3,375 to £9,000, direct government funding was withdrawn for the most part. In 2011-12 66% of teaching income was from direct government grants, whereas now only 18% comes from government sources.⁴¹

Although some analysis has suggested the amount of funds available to universities for teaching increased with the fee cap increase, this does not take into account the fact that, in addition to the withdrawal of direct government funding for teaching, government also reduced capital grants to universities – a reduction of 85% between 2009-10 and 2012-13. This means that universities must fund their investment in teaching infrastructure from any surpluses in income over expenditure, which is why now many universities have needed to run larger surpluses than before the government reforms to teaching funding and fees. Alternatively, universities must take out loans or issue bonds. The abilities of individual universities, across the sector, to run surpluses, borrow and/or issue bonds varies widely.

Will the much publicised increase in the fee cap in line with inflation mean less need for public funding for universities? The fee cap will have been frozen at £9,000 for five years before it starts to increase in line with inflation in 2017-18 – that is five years of inflationary increases that universities have needed to absorb. While the inflationary increase will help prevent further erosion in the income received by universities, it will not mitigate real-terms losses already incurred, or provide a large injection of resources to universities. Certainly it will not provide resources on the scale needed to mitigate losses made on research activities.

Losses of £3 billion per year on the research side are of such a magnitude that they are not sustainable, and have only been managed to date through UK universities using the income they receive above cost from educating non-EU students. It is not clear whether this is a strategy that could be continued over the longer term.

While the 2015 Spending Review's outcome of real-terms protection for the research budget was very welcome, it is clear that, to preserve the UK's world-leading reputation as a research power, a real-terms increase is needed as soon as possible. A real-terms increase

³⁹ Universities UK, 2016, [University Funding Explained](#)

⁴⁰ HEFCE, 2016, [Financial health of the higher education sector: Financial results and TRAC outcomes 2014-15](#)

⁴¹ Universities UK, 2016, [University Funding Explained](#)

becomes even more important if there is uncertainty around the number of non-EU students that UK universities can attract – fewer non-EU students means less income and less capacity to channel this money into research.

Given that the UK's reputation as a world-leader in research will be key to the UK taking its new place on the world-stage and continuing to encourage international businesses to locate and invest in the UK, it would be reasonable for the government to invest more in research, and mitigate some of the financial risks around research activities for universities. This argument for increased investment in research is in addition to the main economic rationale for public investment in research – the positive spillover effects of investing in research are estimated at around two to three times greater than the private returns to individual businesses, and this estimate is likely to be on the conservative side.⁴²

⁴² Universities UK, 2015, [Why invest in universities?](#) and [The economic role of UK universities](#)

Evidence of the accountability and efficiency of universities

Since the increase in the tuition fee cap in 2012, universities have come under increasing scrutiny from their students, the government and the wider public in how they use their funds, quality of experience they deliver, and efficiency by which they achieve their outputs.

It is clear that universities must be accountable for how they spend the income they receive, that they must maximise the value of every pound spent and must deliver value for money for students and taxpayers. The UK's university system has been described as a 'top performer' in terms of the effectiveness of public spending in teaching and research⁴³. Between 2005 and 2011, universities in England⁴⁴ reported £1.38 billion in efficiency savings, surpassing the government's target of £1.23 billion⁴⁵. Universities in Scotland have achieved £120 million in efficiency savings between 2012-2014⁴⁶.

Quality teaching and the student experience are at the centre of institutions' financial considerations. In a survey of university finance directors, 94% reported that enhancing the student experience was a priority⁴⁷. This includes capital investment in teaching facilities and investment in technology. In 2014, both university managers and student union representatives described that universities had made recent, widespread changes to enhance the student experience⁴⁸. Key findings include:

- 75% of institutions had increased support to students from academic staff (e.g. through informal drop-ins, emails or inline discussions)
- Around half of all HEI's had increased contact hours with academic staff or increased small-group teaching arrangements for undergraduates
- More than 90% of institutions improved information on the expectations of their courses, provided additional support for students to develop skills valued by employers, and developed additional opportunities for work experience, placements or internships
- More than 90% of institutions reported improvements to library facilities, IT facilities and/or teaching buildings or spaces.

Universities are committed to delivering value for money and being accountable for their financial decisions. Detailed information on university income and expenditure is set out in annual financial reports which must be published on universities' websites and submitted to HEFCE. In addition, many universities choose to publish accessible visualisations and summaries of their income and expenditure for students and prospective students⁴⁹.

The remuneration of senior executive staff has remained a contentious issue in the media and one that universities take seriously. The pay of heads of institutions in the UK remains significantly lower than in higher education systems in other countries⁵⁰ and lower than

⁴³ St. Aubyn et al. 2009, [Study on the efficiency and effectiveness of public spending](#), especially pp. 80- 84.

⁴⁴ Universities UK, 2015, [Efficiency, effectiveness and value for money](#)

⁴⁵ Case studies of how universities are enhancing their efficiency and effectiveness can be found on [the Efficiency Exchange](#).

⁴⁶ Universities Scotland (2015) [Working Smarter 2015](#)

⁴⁷ Deloitte, 2015, [Higher Education Finance Directors survey](#)

⁴⁸ Department for Business, Innovation and Skills, 2014, [Improving the Student Learning Experience – a national assessment](#)

⁴⁹ For examples, see: The University of [Southampton](#), [Queen Mary University of London](#), and the [University of Bath](#)

⁵⁰In 2014-15, Heads of institutions received an average pay of £230,000 in the UK, compared to £388,272 in Australia, £269,563 at private US institutions and £277,926 at public US institutions. These comparisons are based on purchase power parity (OECD) not currency exchange rates.

average senior executive pay in the private sector⁵¹. In addition, the pay of Head of Institutions has increased by broadly the same percentage as that of other university staff⁵².

⁵¹ The median total remuneration for FTSE250 chief executives was £1.56 million in 2014-15 and £1.05 million for other directors.

⁵² The increase in mean basic salary for Heads of institutions in 2014-15 was 3.3% (Source: HESA) compared to an average 3.2% increase for the staff covered by collective bargaining in the same year (Source: UCEA).

Annexe 1 Examples of UK Universities' direct and indirect contributions to regional growth

1. Stimulating Long-Term Growth in UK SMEs: the LEAD® Programme

The Leading Enterprise and Development (LEAD®) programme uses the insights gained from multidisciplinary research conducted at Lancaster University to support leadership skills development in SMEs. Since 2004, the programme has supported over 3,000 SME owners and helped create 10,000 jobs. An independent evaluation of the LEAD pilot suggests that the programme helped these companies to:

- raise profitability, employment or sales turnover (90% of participants);
- raise productivity, by £8,800 a year on average (75% of participants);
- grow 3.5% a year, increase jobs by 3.6% a year (on average) and secure an extra £11m in net sales per year, of which about £7.5m can be attributed to LEAD®.

LEAD® also informed a successful £32 million Regional Growth Fund bid to support business growth in 20 UK cities, which is expected to leverage £2.8 billion of additional private sector investment and create or safeguard 77,000 local jobs.

Source: [REF 2014](#)

2. Safeguarding the future of Bombardier's site in Plymouth

As a result of the University of Plymouth's successful collaboration with Bombardier, the joint team developed EBITrack400, a cutting-edge coded railway signalling product which has improved railway reliability and eliminated 'false positive' danger alerts, thus achieving savings for train operators while improving the travelling experience.

EBITrack400 has opened up new international markets for Bombardier and helped the company become the world leader in coded track systems, with profits from worldwide sales of the product exceeding \$6 million. This has also led to an investment in their Plymouth site which exports some of the products, securing the long term survival of the site and the local retention of 60 high-skill jobs in the R&D, design and manufacturing functions.

Source: [REF 2014](#)

3. Supporting local start-ups and scale-ups in the South East of England

Established in 1996, the Sussex Innovation Centre (SINC) now counts multiple incubation hubs across the South east. It provides support for the creation and growth of technology- and knowledge-based companies in Sussex through an in-house delivery team, as well as a team of placement students and graduates to deliver projects on its members' behalf.

Since its creation, over 160 high-growth companies have been based at the Centre; their cumulative revenue is now over £250 million and the companies currently employ many hundreds of people in the local area. SINC's success is reflected in the performance of supported businesses. The centre reports that, whilst only 15% of new companies ever go on to be profitable 85% of SINC members become sustainable businesses with the Centre's support, and 1 in 6 of those grow to achieve turnover in the millions.

Sources: [SINC](#), [University of Sussex](#), [UKSPA](#)

4. Improving profitability and customer service in the UK retail sector

Research at the University of Sheffield has led to the development of a Reverse Logistics Toolkit that enables companies in the retail sector, together with members of their supply chain, to improve management of the flow of surplus or unwanted products returned by customers. Companies using the toolkit have seen a reduction in returns of up to 40%, a significant figure given that total UK retail returns have been valued at around £6 billion per annum. The toolkit has enabled companies to reduce costs, improve service provision and reduce transport movements.

Source: [REF 2014](#)

5. Creating a local cluster of innovative laser companies serving global markets

Research in laser systems at Strathclyde's Department of Physics has led to the creation of two highly successful spinout companies, Microlase (1992) and Msquared Lasers (2006) to commercialise a new laser technology. These companies sold over 1,000 copies of the technology and grew staff numbers from 5 to 40.

The university's world-leading expertise in laser systems also attracted international investments from multinational company Thales Optronics, which decided to locate all its laser manufacturing in Glasgow, and the applied research organisation Fraunhofer Society, which decided to establish its first UK centre near the university.

Source: [REF 2014](#)

6. Developing innovative solutions to support economic growth in Milton Keynes

MK:Smart is a £16m collaborative initiative, partly funded by HEFCE and led by The Open University. Building on the large-scale city data capability provided by the MK Data Hub, the project is developing innovative solutions in three priority areas for the city: transport, energy and water management, tackling key demand issues. This is complemented by an ambitious programme of external engagement activities, including:

- A programme supporting businesses that wish to take advantage of the MK:Smart capabilities. This includes access to a local Innovation and Incubation Centre which provides training in data-driven business innovation and the digital economy, as well as support for business development, demonstration facilities, and incubation space.
- A smart city education programme providing advanced training on digital technologies, business innovation and urban services to a wide range of audiences, from local schools to higher education students and businesses.
- Engagement activity involving citizens in the innovation process, through an outreach programme and the establishment of a Citizen Lab.

MK:Smart, was a finalist in the Smart City of the Year category at the 2015 World Smart City Congress. The initiative is expected to deliver up to 20% in water savings, 50% less traffic congestion, a 2.8% reduction in electric consumption and 2% gas reduction, enabling Milton Keynes to safeguard growth in 14,500 jobs by 2026, create 480 jobs in the SMEs supported and secure a 0.1% share of the global smart tech market.

Sources: MK:Smart ([about](#) and [economic impact](#)), [Gov.UK](#), [BT](#)

Annexe 2 Examples of UK Universities engaging with local and regional employers in relation to recruitment

Universities are increasingly collaborating with businesses, councils, Local Economic Partnerships (LEPs) and other stakeholders to encourage graduates to remain in the local area as a means of boosting the skills base and contributing to local economic growth.

Examples include:

- **University of South Wales and British Airways (BA):** BA employs over 1,400 people across South Wales; in order to ensure a steady supply of maintenance engineers, the university has worked with BA to develop a BSc degree in Aircraft Maintenance engineering, which includes industry-standard EASA Part 66 training, an essential requirement a career in aircraft maintenance as an engineer and awarded under British Airways' licence.
- **"Grads4Nottm":** Working with Boots and Nottingham City Council, Nottingham Trent University have developed a graduate scheme that aims to retain graduates in the city. Under the scheme, employers submit a business challenge that they are currently facing and allow students and graduates from the university a two-week funded placement. Under the scheme, local companies are able to raise their profile with graduates, as well as gain access to Nottingham's graduate talent pool.
- **Midlands University Enterprise:** Birmingham City University, Coventry University, Nottingham Trent University, University of Derby, University of Lincoln and the University of Wolverhampton launched the Midlands University Enterprise, which will be focused on the Health, Advanced Manufacturing and Engineering, Transport Technologies, Creative Digital and Design and Agrifood and Drink industries. The programme aims to: improve skills through both work-based learning and apprenticeships, build a talent pipe through work experience, and provide support to address skills development.
- **"RISE for Sheffield":** RISE is a joint initiative between Sheffield Hallam University, the University of Sheffield, Sheffield City Region (its Growth Hub and local authorities) and small and medium enterprises (SMEs) that aims to match graduate talent with local businesses. During 2014 and 2015 the scheme placed over 200 graduates as interns in 150 local businesses. Participating firms are based in a number of sectors, including engineering, manufacturing, Third Sector, technology, and HR and recruitment. Positions last for a minimum of six months.