Overview

Universities have a crucial role to play in driving an industrial strategy and future economic growth for the UK. 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.

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. In addition, UK universities, as an economic sector, generate £73 billion for the UK economy each year, and contribute 2.8% of GDP. 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 things:

- 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-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 exiting 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.

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%.
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. 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%. With over 80% of employers across the UK reporting graduates as either well prepared or very well prepared for work (UKCES) and 88% either satisfied or very satisfied with the technical skills of graduates (CBI/Pearson) universities are working hard to develop the skills employers need. These skilled graduates have a crucial role to play in addressing the UK productivity challenge, research has shown that a 1% increase in the share of the workforce with a university degree can raise the level of long-run productivity by between 0.2 and 0.5%.

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. The industrial strategy should seek to support stronger links between employers and universities especially the value of work placements, internships and joint projects as well as new approaches to university employer collaboration such as Degree Apprenticeships. There has been strong university and employer interest in developing Degree Apprenticeships (in England) to help meet skills needs and drive productivity, they also provide an ideal opportunity to enhance opportunities for a wider range of students. Ensuring the success of Degree Apprenticeships should be a priority in the Industrial Strategy.

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. The evidence shows that a doubling of universities in a region increases GDP per person by 4% to 5% on average. Therefore, universities play a key role in enhancing local economic growth, right across the countries and regions of the UK. Universities also support staff and students to start their own businesses with over 4,000 graduate start-ups in 2014/15. Knowledge transfer and exchange is an important factor in boosting economic growth and universities also provide business support and advice and CPD. The value of the flexible Higher Education Innovation Fund in England that supports these activities and many more is immense and delivers an impressive return of £9.70 for every £1 invested. An increase in HEIF funding in England and similar, flexible funding
across the UK would be an effective and efficient way of boosting enterprise and local growth across the UK.

Ensuring a dynamic labour market that benefits all: higher education is a key equalising mechanism, providing a significant route for those from more disadvantaged backgrounds to improve their life chances, opening up of career pathways and job opportunities. 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. Post-referendum vote, GSK has announced nearly £300m of increased investment in UK manufacturing sites. Therefore, maintaining the UK’s world-leading reputation in research, 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. The UK has one of the highest proportions in the OECD 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.

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