

## **ECONOMY, ENERGY AND FAIR WORK COMMITTEE**

### **DRAFT BUDGET 2019-20**

### **SUBMISSION FROM UNIVERSITIES SCOTLAND**

#### **Draft Budget for 2019-20**

#### **Employment support and fair work**

Universities Scotland welcomes the opportunity to respond to the Committee's inquiry on the Scottish Government's Draft Budget for 2019-20.

This submission focuses primarily on support for innovation, spin-out companies and foreign direct investment as routes to growth and employment. We also make comment on the apprenticeship levy.

#### **The role of enterprise agencies (Scottish Enterprise and Highlands and Islands Enterprise) in supporting and growing good quality employment**

We believe there is considerable potential for stronger rates of innovation across the Scottish economy through businesses working with the HE sector. That innovation will lead to a growth in good quality employment.

Currently, each year Scottish universities work with approximately 22,000 Scottish organisations<sup>1</sup> on formal innovation projects (including over 16,000 SMEs). These drive product and process development through research and development, consultancy and bespoke continuous professional development. Whilst the HE sector believes this is a strong level of engagement, we are ambitious to do more, working with partners such as the enterprise agencies.

#### More companies innovating and accessing innovation support

Survey evidence suggests that approximately 45% of Scottish Enterprise's account managed companies engage with universities. There are also many thousands of companies that are not account managed but do or could benefit from innovation support beyond that offered by the enterprise bodies.

Therefore the enterprise bodies' important work on enhancing the „customer journey“ of companies should include a focus on how all companies, account managed and otherwise, can be best supported to access the full range of innovation support, including that not delivered by the enterprise bodies themselves. For instance, accessing opportunities such as the Industrial Strategy Challenge Fund or through student placement.

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<sup>1</sup> Scottish Funding Council Knowledge Transfer Metrics

Businesses that consistently invest in research and development are 13% more productive than firms that don't.<sup>2</sup> Research shows that enabling SMEs to internationalise and innovate can address the UK's (Scotland's) productivity challenges.<sup>3</sup> Universities offer strong and supported routes to support businesses to achieve these outcomes.

The UK Industrial Strategy offers an excellent opportunity to lever significant investment in business-led innovation projects, complementing other investments. If Scotland was to match the recent success of Scotland's universities in UK-wide research competition, success under the Industrial Strategy could be worth an additional £350m per year for business-led innovation projects in Scotland. Scotland's enterprise agencies could usefully set an ambitious, specific target for Scotland's success in leveraging this UK funding and include this in their operational plans.

Student placement can be a major driver of innovation and can de-risk recruitment for companies. Support to access established schemes could play a stronger part in the agencies' support for companies. For example, Knowledge Transfer Partnership is a scheme that allows a talented graduate or post-graduate, „KTP Associates“ to work with a business, supported by an academic, to allow the transfer of knowledge, technology and skills into a company that they would otherwise not access. For every £1 of grant money invested in a KTP there is a return of roughly £7.75 to the economy.<sup>3</sup> KTPs often deliver significantly increased profitability for business partners and nearly 70% of KTP Associates are offered full-time jobs with the company once they finish the KTP.<sup>4</sup>

### Building a stronger „knowledge infrastructure“

We believe there is scope for enhancing the focus of the enterprise agencies, working with other agencies and HEIs, on the development of Scotland's „knowledge infrastructure“. The recently published Sustainable Growth Commission report cited<sup>6</sup> this infrastructure as a driver of productivity growth and strong agency support to secure developments is vital. Such infrastructure supports domestic companies and drives inward investment as these facilities are a magnet for foreign companies. A good example of this is the significant investment in the Advanced Forming Research Centre at the University of Strathclyde – including investment and backing from Scottish Enterprise.

### Further success in attracting foreign direct investment

Scotland is the UK leader for research and development focused inward investment and the second most successful part of the UK for FDI overall. Universities are working with SDI and other partners on how to enhance Scotland's inward investment propositions. There is much to gain. The top 1000 businesses globally invest over £500bn each year in research

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<sup>2</sup> <https://royalsociety.org/~media/policy/projects/investing-in-uk-r-and-d/investing-in-UK-R-and-D-07-11-2017.pdf> <sup>3</sup> [https://www.goldmansachs.com/citizenship/10000-small-businesses/UK/news-and-events/gew-2015-f/unlocking-uk-productivity.pdf](https://www.goldmansachs.com/citizenship/10000-small-businesses/UK/news-and-events/gew-2015-f/unlocking-ukhttps://www.goldmansachs.com/citizenship/10000-small-businesses/UK/news-and-events/gew-2015-f/unlocking-uk-productivity.pdf)

<sup>3</sup> <http://www.ncub.co.uk/reports/growing-value-scotland-final-report.html>

<sup>4</sup> <https://www.strath.ac.uk/engineering/workingwithindustry/knowledgetransferpartnerships/>

<sup>6</sup> See paragraph A6.123

and development in nations outside the UK. If Scotland captured an extra 1% of that investment then £5bn would be added to the Scottish economy annually.

### Creating more companies

Scotland is the best performing part of the UK for the formation of spin-out companies. Those companies make an important contribution to economic growth and job opportunities across the country. The Scottish Enterprise High-growth Spinout Programme (HGSP) has been an important intervention to support this success. However, in recent years it has come under financial pressure despite a steady demand for this fund from spin-outs. We understand that the current intention is that Phase 1 and 2 of HGSP will be maintained but changes to Phase 1, including more due diligence on the part of universities, could potentially impact on the equality of access for different universities. In the interim, we are working constructively with Scottish Enterprise on the future of HGSP but we believe it's important that it continues to operate and is open to all potential high growth spin outs. Consideration needs to be given to whether the current resource devoted to the Programme is sufficient.

### Opportunities for cities and regions

We welcome the emphasis on regional working from the enterprise agencies. This is an approach supported by our members. Universities are „anchor“ institutions within their locality that can also offer a global reach. We think it's vital that universities are engaged with regional strategy, including the development of the new South of Scotland agency. As the recent Programme for Government<sup>5</sup> noted, building on City and Growth Deals, where universities are playing a central role, will be important.

The Science and Innovation Audits undertaken by the UK Government offer good insight on specific regional strengths and are already being drawn upon. It may be useful for this methodology to be adopted more widely in Scotland. A single, standalone document for the entirety of Scotland may also be helpful and would have the secondary benefit of informing the work of enterprise agencies in the future.

### **How is Apprenticeship Levy money being used in Scotland?**

As with other major employers in Scotland, in 2017-18 universities became liable for the Apprenticeship Levy, with a contribution of 0.5% of payroll (approximately £9m across the sector as a whole).

Universities have a dual interest in the levy.

They are major employers and take on a number of apprentices, particularly in support functions.

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<sup>5</sup> <https://www.gov.scot/Resource/0053/00539972.pdf> (p47)

Working with employers across Scotland, they also offer graduate apprenticeships. Many Scottish Universities are already working with Skills Development Scotland (SDS) for the development and delivery of initial cohorts of graduate-level apprenticeships in 2017 and 2018.

Like other university provision, graduate apprenticeships are in strong demand and we would like to see apprenticeship levy funds committed to meeting this demand. Universities submitted bids to SDS for 1,600 places in the second year of the apprenticeship programme when only 520 were initially available. Moreover, the number of universities wanting to run graduate apprenticeships has grown from 8 in year one to 13 in year two.

**In summary, Universities Scotland would like to see:**

- stronger co-operation and co-ordination to enhance companies' „user journey“. It's vitally important that businesses looking for support are given access to the full range of services (and funding). Often what is best for the business might not be the enterprise agency-led project or service.
- a prominent cross-agency ambitious target for success in leveraging investment under the UK Industrial Strategy to support businesses in Scotland to grow
- sufficient financial support for the High-growth Spinout Programme (HGSP).
- the opportunity for HEIs to work closely with the development of the South of Scotland agency and other regional structures.
- consideration of how the Science and Innovation Audit model can be used more broadly in Scotland.
- a strengthened focus across the agencies on driving investment into a „knowledge infrastructure“ that acts as a magnet for investment and an anchor for industrial partnership.
- growth in graduate apprenticeship opportunities to meet the strong demand.

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