

London Higher response to the Science, Innovation and Technology Select Committee inquiry into innovation, growth and the regions

Introduction

London Higher is the membership organisation for over 50 universities and higher education institutions across the capital, representing the full diversity of the capital's vibrant sector from small, specialist conservatoires and research institutes to large, multi-faculty universities. London's universities are powerful engines of economic growth, collectively educating over 507,000 students, employing over 223,000 people across all sectors of the UK economy and generating over £27bn in economic impact.

London's universities and higher education institutions are powerhouses of research and innovation; 47% of London's research was rated 4* (world-leading) in the Research Excellence Framework 2021 (REF2021) results, demonstrating the world-class outputs derived from research spend in the capital. Research undertaken by the capital's higher education institutions drives regional, national and global progress and prosperity.

London Higher convenes a series of expert networks, including a Research Excellence network (Pro-Vice-Chancellors for Research & Innovation, Directors of Research Policy and other senior staff) and an Enterprise network (Directors of Enterprise or Innovation, Heads of Business Engagement, Pro-Vice-Chancellors Business Development). This select committee inquiry is directly relevant to the core focus of these networks, including: systemic factors affecting the success of startups and spinouts; commercialisation, knowledge exchange and tech transfer; regional dimensions to the research and innovation ecosystem; access to capital, funding and subsequent return on investment for productivity and growth; relationships with funding bodies and research councils; and the role of regional and national government.

How does the Government drive research and innovation in our regions?

How effective are the government's policies in supporting the innovation ecosystem across the UK's nations and regions, particularly through commercialisation initiatives?

The direct funding of innovation and research from UK Research and Innovation (UKRI) into universities are important parts of local research and innovation ecosystems. Government support improves the financial sustainability of university research, however, there are areas where such funding could be improved.

Certainty over a longer timeframe (for example, longer-term research budgets), allowing for agility, would enable institutions to operate with more certainty and with clear principles for engagement. Commercialisation is not just an endpoint, but a process requiring robust infrastructure – regional capacity building would improve the ability of institutions of all type to effectively commercialise. Stable funding agreements also provide a basis for foundational and fundamental research, with cutting-edge innovation often the result of many years of basic research that has been funded previously.

An issue from many institutions is low cost recovery on research grants and full economic cost of research not being met. This is particularly acute for research specialist institutions with postgraduate only and have limited options to cross-subsidise. Additionally, they often have a higher proportion of charity grants which have a particularly poor return on full economic cost. The charity research support fund (CRSF) is not effective enough in mitigating this issue. CRSF has declined in real terms over the past decade and never reached the £270m it was supposed to have reached by 2010-11 (it is currently at £219m). This is despite charity investment increasing by almost £1bn between 2010-2022 and inflation being at record levels. It is important to be clear this not a criticism around the role of charities, who play an absolutely vital role keeping the UK's life science eco-system afloat, the situation relates to the role Government need to play in ensuring the relationship works both ways.

Support for early discovery research allows the generation of sustainable income streams, including from intellectual property (IP) - whose return on investment is often visible only in the longer term.

How should devolution be harnessed to support innovation across the regions and nations, and what role should local government play in supporting research and development?

An [innovation evidence review](#) conducted by the Local Policy and Innovation Partnership (LPIP) Hub in October 2024 identified that 'innovation policies are increasingly shifting towards cooperative, multi-actor, and more 'place-based' approaches, with a focus on supporting innovation clusters'. These clusters can build on local strengths, meet local needs, and provide benefits to the local and wider regional economy.

Funding through sources such as the [Regional Innovation Fund](#), Higher Education Innovation Funding (HEIF), and UK Research Partnership Investment Fund (UKRPIF) should incorporate a focus on successful mechanisms and examples of what has previously worked to drive local growth and innovation.

It is positive to see the ambition to [strengthen local innovation ecosystems](#) in the English Devolution white paper and promote stronger connections with UKRI. This will allow policymakers to better grasp the scale of innovative activity across their region, fostering closer collaboration with higher education institutions. The GLA and Mayor of London therefore have a key role to play to support the innovation ecosystem and increase join-up between education, industry, local businesses and citizens for broad economic benefit and growth. Following on from the London Growth Plan, Industrial Strategy and local growth plans, collaboration between Innovate UK and Mayoral Strategic Authorities to produce '[joint plans that shape long-term innovation strategies and investments in places](#)' are important and should involve the depth and breadth of expertise that is clustered within London.

How do factors such as the tax system, regulatory frameworks and standards influence the success of start-ups, spin-outs, and other innovation-driven businesses?

Businesses often avoid collaborating with higher education institutions, even when these institutions possess valuable expertise in sectors critical to growth. One significant barrier is the lack of tax incentives that would make such partnerships financially viable. The current system for research and development-related tax credits is complex, requiring specialised teams to navigate the application process. This places smaller businesses and higher education institutions at a disadvantage, as they frequently lack the necessary expertise and resources, and many remain unaware of the potential benefits of improved tax policies for Research, Development and Innovation (RDI) collaborations.

If the tax framework were adjusted to make private-public RDI partnerships both feasible and economically appealing, it would unlock opportunities for innovation that neither sector could achieve independently. Collaboration between businesses and universities brings complementary strengths—businesses provide practical, market-driven insights, while universities contribute long-term, interdisciplinary, and theory-informed knowledge. A comprehensive strategy should incentivise collaboration across businesses of all sizes, from start-ups to multinational corporations.

What challenges do innovation-focused researchers and businesses face in spinning-out or scaling-up, such as accessing venture capital, infrastructure and intellectual property rights.

Additionally, frameworks and funding should be developed to encourage universities to partner effectively with other training providers, such as further education colleges and third-sector organisations, to align stakeholders and maximise impact. Enhancing the value of tax credits for private-public RDI collaborations and allowing in-kind contributions to public sector research could further strengthen these partnerships.

Making it easier for the private and higher education sectors to collaborate would yield significant long-term benefits. The government should emphasise the advantages of RDI work involving the public sector and highlight the unique role of universities in conducting critical research, including blue-sky projects. Such research, while not always immediately marketable, often has profound implications for future private-sector innovation. Ultimately, universities are a vital and integral component of the RDI ecosystem, and their contributions should be recognised and supported in any comprehensive strategy.

Access to venture capital across London's diverse institutions could be improved. Smaller or less research-intensive universities often face challenges in securing similar levels of venture capital support to Russell Group universities. These institutions may lack the established networks and resources necessary to attract significant venture capital investment, leading to disparities in the commercialisation of research outputs. However, recent developments indicate a growing interest in bridging this gap. For example, a consortium led by Queen Mary University of London – [London Social Ventures](#) - has been established to provide early funding for new startups pursuing social goals. Building on this initiative, to maximise opportunities for investment across London's diverse higher education institutions, would enhance local economies. Access to venture capital and scale-up opportunities are a critical piece of the R&D pipeline, and must be considered so as to ensure the long-term growth and success of the UK's innovation sector.

In addition to access to venture capital other barriers in scaling up include: sector-specific support services; lack of certainty caused by short-term funding cycles leading to risk aversion and less willingness to invest in high-cost infrastructure; difficulties in accessing high quality facilities at the necessary scale; concerns around intellectual property; and lack of an appropriately scaled investment ecosystem.

Place-specific clusters that convene academic expertise, business and industry and other major stakeholders are welcomed as a mechanism that allows more effective knowledge exchange and impact flow throughout the innovation ecosystem.

Examples of successful models of practice include the Cambridge life sciences corridor: expertise and talent from across academia, clinical, biotech, medtech and AI sectors are co-located within world-leading infrastructure and an environment that has been enabled the effective commercialisation and translation of innovation into industry. The Cambridge Biomedical Campus (CBC) has added [£2.2bn in GVA](#), produced £700m+ of spend in the regional economy, and has recently secured [£500m of investment from Prologis](#) in order to develop 'specialist life sciences facilities, offering a mix of laboratory and office space across 115,000 sq. ft. The development, aimed at a range of scale-ups and research-led life sciences companies, will be part of the expanding world-class ecosystem at CBC, which brings together clinical, academic and commercial excellence'.

Commitment to providing investment and funding agreements that build on existing clusters of excellence, such as those [present across London](#), would facilitate the spinning out and scaling out of innovative ventures, attract further investment from the private sector, pull in businesses, create local jobs, and play an important part in local regeneration (e.g. infrastructure).

Recognising the diversity of where innovation takes place (in terms of sectors) is also important to allow London's higher education landscape to flourish. Members have particularly raised that 55% of creative businesses, as aligned with OECD definitions of creative, undertook R&D (2017-20), however under the current system, only 14% of these would be eligible for UK tax relief.

It is noted that countries such as Germany, France, Italy, South Korea and Mexico all already recognise R&D in creative/SHAPE disciplines for tax credit purposes. An updated approach would work to ensure that the current framework does not limit investment. This has been highlighted by the House of Lords' Communications and Digital Committee report: [At risk: our creative future](#).

How well are universities and businesses coordinating efforts to develop and commercialise research, including the role of spin-outs and collaborative R&D projects?

The existing spin-out model depends heavily on the determination of individuals operating within a system where academic workloads are already demanding, and institutional culture prioritizes research excellence over commercial endeavours. As a result, this model appeals to only a limited number of academics. The UK could look to international approaches to address these challenges. For instance, Germany's EXIST programme provides structured support to students, researchers, and academics by offering grants that allow them to dedicate a year to commercialising their ideas. Additionally, more advanced projects receive assistance with business planning and prototyping.

Universities are central pillars across various sectors of the innovation ecosystem, and provide SMEs with the requisite access to infrastructure, talent and expertise that is nurtured through foundational research.

In addition, the Committee welcomes submissions on the following points:

What is the relationship between investment in innovation and economic growth, both regionally and nationally?

Government research into the relationship between investment in R&D and growth suggests that '£1 of public R&D investment stimulates between £1.96 and £2.34 of private R&D in the long run', with benefits being realised within 15 years.

47% of London's research was rated 4* (world-leading) in the REF2021 results, demonstrating that world-class outputs derive from research spend in the capital. A report from Rand Europe also shows that the economic impact of research is diffused from London to other regions of the UK. Indeed, 60% of all case studies submitted to REF 2021 involved an impact flow beyond the region in which the research took place, highlighting the relationship between investment in innovation for diffused growth and impact across the nation.

Research and innovation undertaken by London's universities has local impact (as evidenced in the London Higher Civic Map), national benefit across regions (as evidenced in our Capital Gains map), and globally (as evidenced in our Beyond Borders report).

London is the UK's top-ranked innovation cluster, and investment in innovation will allow the capital to build on its substantial research base, contribute towards solving global issues and driving growth in key sectors such as technology (including AI), renewable energy and sustainability, health, creative and more. It competes with the foremost major world cities like New York, Tokyo and Shanghai, and outstrips Paris and Madrid as Europe's leading destination for FDI (foreign direct investment).

Education, science, and culture are three core pillars of the Foreign Secretary's priorities for advancing British influence via soft power – London's higher education sector plays a key role in all these strands, attracting global talent and investment and serving as a gateway for the rest of the UK.

Is the £20.4 billion research and development budget delivering value for money and economic growth, and what metrics should be used to evaluate its effectiveness?

Universities are already subject to extensive reporting requirements to funders, in addition to institutional submissions to the Research Excellence Framework (REF). This exercise constitutes a significant time cost and expenditure, and any metrics to evaluate value for money and the effectiveness of the research budget should be proportionate to the rate of return, and not add additional reporting burden. These reporting requirements are fundamental accountability mechanisms, and the development of new or updated metrics should involve continued dialogue with the university and wider research sector, as is the case with the REF.

How are funding bodies such as UKRI and ARIA contributing to the UK's innovation ecosystem and delivering the government's growth missions?

It is too early into this government's mandate to judge the contribution of bodies like UKRI and ARIA to the growth missions. Nevertheless, funding bodies, executive agencies and universities have a critical role to play in the development and delivery of these missions, such as through the funding and undertaking of mission-based research (alongside blue skies and foundational research).

How does the UK's innovation ecosystem compare to those of other countries, and what lessons can the UK learn from international models in terms of commercialising research and innovation to benefit both regional and national economies?

Professor Irene Tracey and Dr Andrew Williamson's [review of university spinouts](#) makes comparisons between the UK and other countries such as the US, France and Switzerland as regards: the role of technology transfer offices; spinout deal terms and university equity stakes or dilution; and the role of research funding, in enabling research commercialisation. It pulls out the relative strength and stability of US and Swiss institutions where a larger proportion of research income is fully funded by government, compared with match or other funding as with the UK system. This is particularly important in London, whose immense density and diversity of higher education and research institutions mean that institutional financial capability to commercialise research is disparate.

It is noted that countries such as Germany, France, Italy, South Korea and Mexico all already recognise R&D in creative/SHAPE disciplines for tax credit purposes. An updated approach would work to ensure that the current framework does not limit investment. This has been highlighted by the House of Lords' Communications and Digital Committee report, [at risk: our creative future](#).