



RUSSELL GROUP

A Thriving Economy

Setting the UK up for growth

Our vision is for a thriving, innovation-driven UK economy that can tackle major challenges, support new businesses and give people the opportunity to get on in life.

Russell Group expertise in cutting edge research, and investment in new facilities and innovation, is transforming UK cities and creating thriving clusters of high-value activity. We are giving businesses access to technologies that are transforming the way we work, boosting productivity and offering a clear path to sustained economic growth in every nation and region of the UK.

Harnessing the power of research-intensive universities by investing in R&D and supporting knowledge infrastructure will build the UK's competitive advantage in transformational new fields like AI.

Aim for at least 3% GDP to be invested in R&D by 2030

Matching the ambition being shown by our international competitors with long-term research investment commitments will strengthen the UK's economy and resilience. The next Government should aim for at least 3% GDP to be invested in R&D by 2030. An additional 'stretch target' of 3.5% of GDP by the end of the parliament after next (2033/34) would bring us closer in line with our competitors in the OECD.

Steady and predictable increases in public investment, in particular for research funding that can be used strategically by universities, will mean we can work with our partners to increase capacity and capabilities, advance knowledge, and position the UK as a global powerhouse in science and research from which everyone can benefit.

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- To reach the target of at least 3% of GDP, which includes public and private investment in R&D, the next UK Government should invest an extra £4 billion (in 2024/25 prices) in public R&D funding per year by 2029/30.
- To maximise economic impact, this investment should be delivered at a steady pace, with the same real-terms increase in each fiscal year, allowing the research sector to plan ahead, and to adapt and grow steadily. This would mean the following additional investment between 2024/25 and 2029/30:

Fiscal year	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Baseline investment (£ billion)	20.0	20.0	20.0	20.0	20.0	20.0
Additional investment (£ billion)	0.0	0.8	1.6	2.4	3.2	4
Total public investment (£ billion)	20.0	20.8	21.6	22.4	23.2	24

- The baseline £20 billion annual public investment in R&D in 2024/25 prices should result in approximately £60 billion of private investment. The proposed additional public investment above the baseline would deliver an additional £4 billion in private investment in 2029/30 alone.
- We also propose that UKRI’s share of R&D funding, and core research budgets’ overall share of the UKRI total, should be preserved as a minimum, as other initiatives, including those we propose below, are built on the strength of our research base. This is particularly true for long-term, flexible and strategic funds like quality-related research (QR) funding and its devolved equivalents.
- This approach would also allow for UKRI to address the erosion in funding for the full economic cost of research (FEC), bringing this back to 80% FEC. Without addressing this issue, growing the volume of research in the UK will be unsustainable.

Why is this important?

- The UK should invest in areas where we have a clear competitive advantage: 13% of the world’s most highly-cited research comes from a country with 0.9% of its population.¹ During the pandemic, research-intensive universities were critical for everything from vaccines to ventilators, while our science base attracts investment from across the world.²
- Investment in public R&D stimulates private R&D investment: between £1.96 and £2.34 for every public pound, according to Government analysis,³ with the ‘leverage effect’ beginning in the same year. Recent ONS figures, indicating that UK R&D spending is higher than previously thought, suggests the effect is even greater.
- UK Government analysis also indicates that investment in R&D is an investment in productivity growth, leading to a larger, more productive and more prosperous economy: £1 of investment in R&D is estimated to yield £0.20 in productivity growth, not including any spillover effects from R&D carried out by one firm upon other firms.⁴
- OECD public and private spending on R&D was 2.7% in 2021, and the most R&D-intensive nations invest more. The US – the only country with more top-100 universities than the UK – spent 3.5% of GDP in R&D by 2021, while Taiwan (the median country in the OECD top five) reached 3.8%. These are the countries the UK should benchmark itself against.
- Because our university base is particularly important to its innovation and growth, R&D investment is particularly important for the UK. As a country, we are 4th in the Global

Innovation Index thanks to the quality of our universities (2nd) and citable documents (1st), and rank 3rd in innovation outputs while only ranking 7th in innovation inputs.⁵

- QR research funding and the Research Excellence Grant in Scotland, a central part of our core research budgets, give institutions the autonomy to deploy funding strategically – to commit to long-term investments and to respond quickly to new challenges. This was crystal clear during the Covid-19 crisis: universities used QR funding to redeploy researchers to pandemic-related work at pace, before Government could create new schemes. Unlike other public funding, universities can deploy QR funding flexibly, making the R&D system more resilient and providing a strategic advantage over systems which rely solely on project funding.⁶

Impact:

The economic benefits of R&D investment in universities are clear. For every £1 of public research funding they secure, our research-intensive universities deliver an average return of £9 to the UK economy.⁷

An additional £80m investment in Higher Education Innovation Fund (HEIF) supplements each year to deliver a return of nearly £1bn to our economy and society

The consequential funding this investment would generate in Scotland, Wales and Northern Ireland should be used at the devolved level for equivalent purposes and not diverted into other areas of public spending.

Why is this important?

- HEIF underpins universities' core innovation activities. In 2021/22, Russell Group universities delivered over £1.5 billion of consultancy and contract research⁸ and their spin-outs were responsible for over 31,000 jobs (FTE).⁹
- HEIF allocations are capped per university. But since large research-intensive universities deliver the highest return for the economy and society, £40 million in supplements are distributed to institutions who can prove that the cap constrains their ability to support economic growth and commercialisation activity.
- Investing to grow these supplements would deliver greater returns to the economy.

Impact:

- For every £1 of HEIF funding they secure, our research-intensive universities deliver an average return of £12.43 to the UK economy.¹⁰ On this basis, raising the HEIF supplement by £80m should return nearly £1 billion to our economy and society.
- From 2013/14 to 2018/19, while Wales' HEIF equivalent was withdrawn, business investment in Welsh universities fell by over 6%,¹¹ but rose by 28% in England, 32% in Scotland, and 44% in Northern Ireland, which retained their equivalents. Business investment in Welsh universities only recovered when it was reintroduced in 2019/20.
- Government analysis also indicates that productivity growth from R&D is most strongly driven by patented inventions and the introduction of new-to-market innovative products – exactly the kind of innovation particularly closely associated with research-intensive universities' commercialisation efforts.¹²

The UK should support hundreds of new deep-tech spinouts from universities through a new 'Spark Fund'

This could be delivered by the British Business Bank making investments in every nation and region of the UK, and through reforms to pension rules to help funds invest in high-potential spin-outs and start-ups, to deliver an additional £1 billion of public and private investment by 2030.

Why is this important?

- Deep tech – technology based on tangible engineering innovation or scientific advances and discoveries – can be revolutionary, but also takes a long time to reach the market.
- In the UK, venture capitalists and industry partners have been reluctant to invest in deep-tech, preferring more immediate returns. This is true throughout the UK, but particularly outside London and the South East.
- The Spark Fund would invest in university spin-outs with a deep-tech focus. It would require at least an equal amount of co-investment as a condition of funding.
- Committees of investors with deep-tech-relevant experience, could be formed for different parts of the UK to make investments. In some areas, existing structures like Northern Gritstone, Midlands Engine or the Qubis Innovation Fund could play this role.

Cost:

Two rounds of the Spark Fund would cost £400m over the 2024-25 to 2029-30 period and leverage at least £400 million of private investment.

Impact:

- Two three-year rounds of £200 million by 2030 would support at least 315 new deep-tech spin-outs across the country in each round: at least 630 new spin-outs by 2030.¹³
- Match funding requirements would mean a minimum private investment of £400 million. Given spin-outs would be expected to hold new, larger investment rounds and attract additional capital as they grow, over six years we conservatively estimate the Spark Fund investment would generate at least £1 billion public and private investment.
- In the longer term, deep-tech spinouts can deliver disruptive change and extensive commercialisation, creating the unicorn companies and new industries of the future.

A Research and Innovation Guarantee in the National Planning Framework

With fast-track applications for research and innovation facilities and reformed VAT rules for new research facilities shared with business, this would unlock development to support new clusters of high-tech businesses across the UK.

Why is this important?

- Providing a guarantee for R&I in the National Planning Policy Framework¹⁴ (NPPF) would prioritise the building of economically beneficial R&I facilities and fast-tracking applications would reduce current delays on new R&I facilities.

- VAT rules allow the construction costs of buildings used solely for a relevant charitable purpose to be zero-rated for VAT. Publicly funded or charitable research qualifies for VAT relief, as long as the building is used solely for this purpose for at least 10-years after its construction. HMRC define 'solely' as 95% of the use of a building, with a 5% allowance for commercial activities. These rules disincentivise business-university engagement.
- We propose changing these rules to charge the appropriate amount of VAT dependent on how much commercial R&D is happening in the building year-on-year. Specifically by ensuring new buildings being built or acquired by universities and used for charitable purposes are zero-rated in the first instance and then universities report and pay VAT on any commercial or non-research use of the building (above the 5% allowable) each year up to 10 years.
- This would be consistent with other existing VAT schemes used by HMRC, such as the Capital Goods Scheme adjustment.

Impact:

- A guarantee for R&I in the NPPF and fast-tracking R&I applications would reduce delays and support a targeted, long-term approach to R&I facilities. This would signal stability and attract more international talent and private investment.
- Reforming VAT for new research facilities would incentivise university-business collaboration by reducing costs associated with capital investment for collaborative R&I; specifically on new state-of-the-art buildings designed to host innovative collaborations. It would increase the impact of public investment as less of the Government funding distributed to build these facilities would go back to HMT through VAT.

References

- ¹ With only 3% of the world's researchers, the UK produces 7% of the world's publications and 14% of the world's most highly-cited research. 'International comparison of the UK research base' (2022)
- ² For example, Merck is building a £1 billion UK hub including research laboratories and GSK is launching a £10 million UK AI hub. Previous investments include AstraZeneca's £330 million strategic R&D centre and global headquarters in Cambridge.
- ³ 'The relationship between public and private R&D funding', BEIS Research Paper Number 2020/010
- ⁴ BEIS research paper, 'From ideas to growth: Understanding the drivers of innovation and productivity across firms, regions and industries in the UK' (2021), https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1023591/niesr-report.pdf
- ⁵ Global Innovation Index 2023: <https://www.globalinnovationindex.org/Home>
- ⁶ Russell Group, 'Supporting future breakthroughs and improved resilience for the UK: the importance of 'QR' funding (2021), <https://russellgroup.ac.uk/media/6006/supporting-future-breakthroughs-and-improved-resilience-the-importance-of-qr-funding.pdf>
- ⁷ London Economics, 'The economic impact of Russell Group universities' (2017), <https://londoneconomics.co.uk/wp-content/uploads/2017/11/LE-Economic-impact-of-Russell-Group-universities-19-10-2017-FINAL.pdf>
- ⁸ HESA, Higher Education - Business Community Interaction (HE-BCI) survey (2021/22), <https://www.hesa.ac.uk/data-and-analysis/business-community>
- ⁹ Ibid.
- ¹⁰ Calculated from figures in Ulrichsen, Tomas Coates, 'Assessing the Gross Additional Impacts of the Higher Education Innovation Fund (HEIF) An update for the period 2015/16 - 2018/19' (October 2021), <https://www.ukri.org/wp-content/uploads/2021/10/RE-01102021-AssessingGrossAdditionalImpactsOfHEIF.pdf>
- ¹¹ Based on data reported through the Higher Education Business and Community Interaction (HEBCI) survey.
- ¹² BEIS, 'From ideas to growth: understanding the drivers of innovation and productivity across firms, regions and industries in the UK' (2021), https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1023591/niesr-report.pdf
- ¹³ Based on an average investment at seed funding stage of £1,263,000 in 2022, as reported by the BVCA: <https://www.bvca.co.uk/Research/BVCA-Publications/Details/BVCA-Report-on-Investment-Activity-2022>
- ¹⁴ [National Planning Policy Framework](#), July 2021