



OECD Reviews of Regional Innovation: North of England, UK

What is the North of England and how does it perform?

How does national policy support innovation in regions?

How are regional assets recognised and aligned with national priorities?

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Introduction

Regional innovation systems are important for two main reasons. First, strong dynamics of innovation generation in regions are crucial for achieving national innovation policy objectives; and second, innovation performance can contribute to improving the overall economic competitiveness of individual regions by increasing the productivity of firms.

OECD countries are nevertheless struggling with: how national policies to support innovation should take into account the regional dimension (and the importance of “place”) and how “regional” actors can support innovation that is relevant for their specific regional context.

The place-based dimension of innovation has been documented in the literature as operating to produce benefits that can occur at many sub-national levels, such as a cluster, metropolitan area or region, and this variable geometry is not easy to address.

In the UK there is interest at national, regional and local levels in regional innovation policy. Some support mechanisms are in place, though several are new and still being worked through. While a broadly favourable context exists, specific elements in some relevant policies may still not be fully conducive to fostering regional innovation further.

The progress that has been made by both central government departments and by regional and local bodies to support innovation should be recognised and built upon. The different actors involved in delivering innovation policy will need time and resources to achieve innovation strategy milestones and long-term economic transformation goals. Additional resources to support efforts in the North of England could be obtained in part by better alignment of resources across levels of government, greater leverage of private sector resources and reduction of transactions costs in current programmes. ■

What is the North of England and how does it perform?

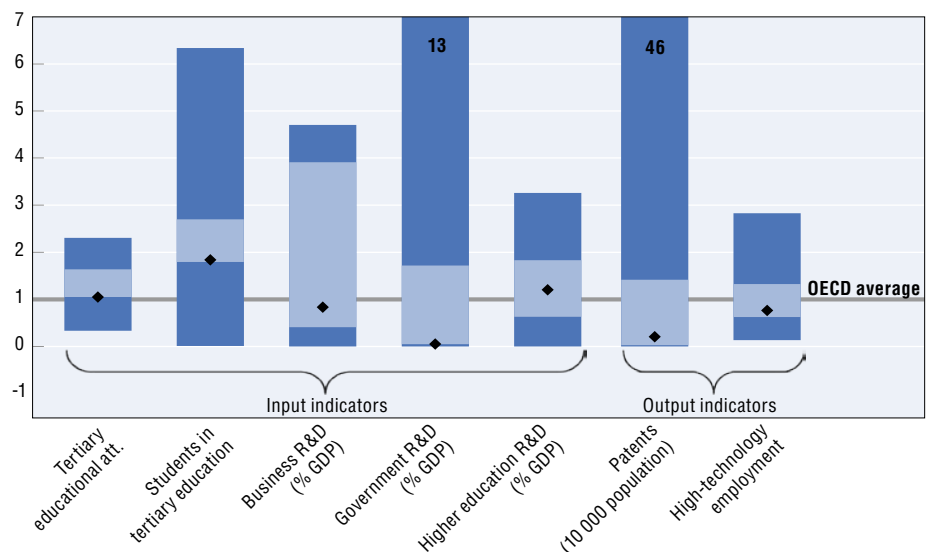
The North of England is composed of three administrative regions (North West, North East and Yorkshire and the Humber). The North accounts for slightly more than 20% of the UK economy (GBP 232 billion) and 24% of the UK population (14.5 million people). It contains a complex economic geography with eight city-regions that cover approximately 90% of the North’s economy and population, including major Northern centres such as Manchester and Leeds.

Given the scale and diversity in the North of England, this area does not constitute a single regional innovation system; rather there are a number of “hot” and “cold” spots in terms of economic and innovation activity. There are few documented truly pan-Northern economic linkages. Nevertheless, different parts of the North share some common challenges with respect to economic development and innovation.

Innovation is seen by both national and regional levels as one of the keys to improving the productivity of the region and contributing to closing the growth gap. Regional gross value added (GVA) growth in the North has historically lagged behind the rest of England. This trend is explained by a range of factors, including comparatively lower educational attainment and skills, migration out of the area by young people and graduates, lower employment rates and an industrial composition more weighted towards lower productivity sectors.

With respect to basic innovation input and output indicators, the North appears to have lower levels within the UK and compared with many regions in peer countries (see graphs). The typologies of regional innovation systems based on performance of the North illustrate commonalities with several German and French regions, along with strong industrial Italian and Spanish regions. ■

Figure 1.
INNOVATION INDICATOR
SUMMARY: NORTH EAST



Notes: Inner band represents the range of values for UK regions and the outer band represents the range of values for OECD regions. Information on all OECD regions is not available for each indicator. Source: OECD Regional Database 2008.

How does national policy support innovation in regions?

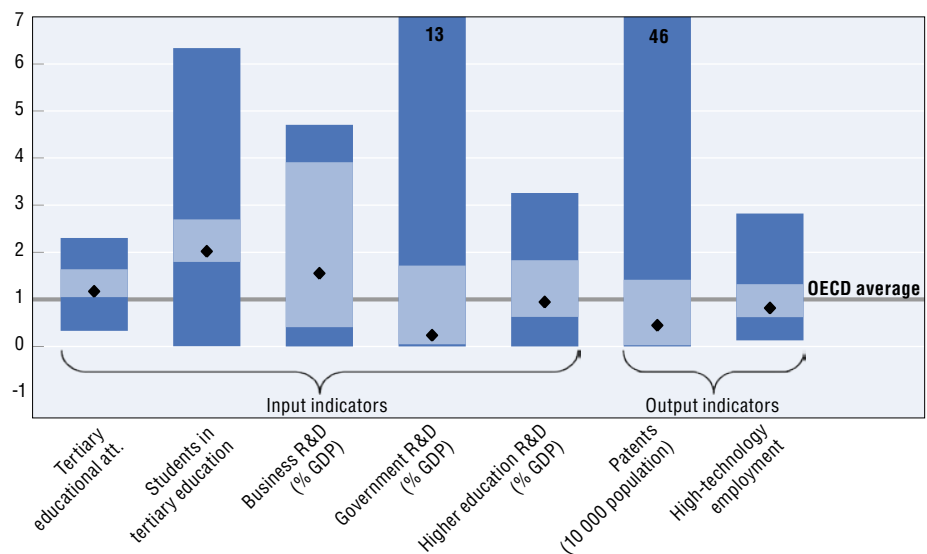
Recently there has been considerable change in policies and institutions on two dimensions important for regional innovation: 1) regional policy and governance and 2) science and technology, as well as innovation policy more generally. It will be important to reinforce cross-departmental approaches at national level to ensure integrated decision-making on policies affecting the innovation performance of regions and city-regions.

Regional policy and governance

UK regional policy focuses in part on enhancing productivity as a tool to promote economic growth and reduce the regional gap in economic growth rates. UK analyses showed that economic performance was being held back by under-performing regions, shifting the focus of regional policy away from attracting investment into target regions towards an emphasis on productivity growth. This means a stronger focus on innovation performance and the ability of all regions to face the challenges of globalisation. The recently launched government-funded Spatial Economics Research Centre and the regional observatories could play a lead role in building evidence on the new rationales for Government’s regional policy.

Regional Development Agencies (RDAs), the primary actors to promote regional economic growth and innovation, continue to evolve. The *Sub-National Review of Economic Development and Regeneration* (July 2007) proposes to strengthen the capacity of local governments to implement economic development with greater involvement in influencing, scrutinising and implementing the Regional Economic Strategies. There has also been a gradual transition of RDAs from a delivery vehicle for national programmes to strategy development bodies with, pending legislation, spatial planning responsibilities. RDAs and local partners should consider a programme to develop capacity and capability on innovation policy and support, and to learn from best-practice internationally.

Figure 2.
INNOVATION INDICATOR
SUMMARY: NORTH WEST



Notes: Inner band represents the range of values for UK regions and the outer band represents the range of values for OECD regions. Information on all OECD regions is not available for each indicator. Source: OECD Regional Database 2008.

Science, technology and innovation

The UK’s innovation system has been strongly centralised but there is increasing support for the spatial dimension of innovation in the recent *Innovation Nation* White Paper – the strongest recognition by central government to date. This recognition should be followed up with practical steps to enhance support for innovation policy and delivery in the regions. In France and Germany, among other OECD countries, competitive innovation-related programmes with a spatial dimension have served to generate new ideas, build capacity and local dynamism, and reduce the transaction costs associated with more ad hoc project funding.

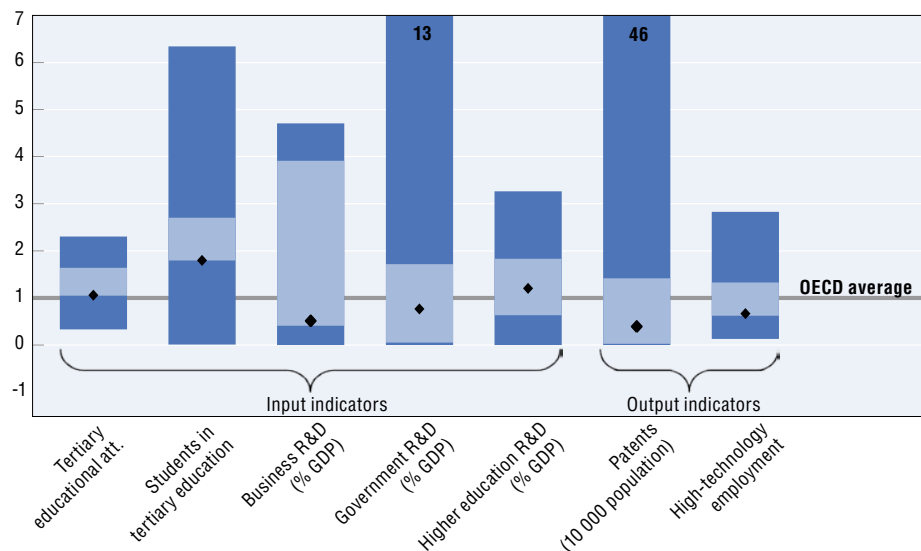
In the context of the newly created Department for Innovation, Universities and Skills, *Innovation Nation* promotes a broader definition of innovation. Policy research and demonstration projects sponsored by the National Endowment for Science, Technology and the Arts (NESTA) have played an important role in expanding the definition of innovation in the UK and supporting the concept of place in innovation. ■

How are regional assets recognised and aligned with national priorities?

There are few formal mechanisms for recognising regional innovation-related assets as national or international assets. The only significant national-level system focuses on university research excellence. Regional assets include not only university R&D expertise but also areas of industrial competence/cluster niches (firm assets, skilled labour, etc.), key innovation sites (incubators, science parks, public or private R&D facilities, etc.), important partnerships/networks or associations, effective education and training institutions, and an investor community, among others.

Greater clarity is needed with respect to national priorities and criteria for recognition of “world-class” excellence with respect to innovation assets (outside of academic research). This clarity would allow regions in the North

Figure 3.
INNOVATION INDICATOR SUMMARY: YORKSHIRE AND THE HUMBER



Notes: Inner band represents the range of values for UK regions and the outer band represents the range of values for OECD regions. Information on all OECD regions is not available for each indicator. Source: OECD Regional Database 2008.

to better compete for national recognition and generate robust, convincing proposals that illustrate how their assets are of national importance.

Regional assets are not necessarily promoted by the national level, and the mechanisms to align resources are under-developed in the UK. In other OECD countries, including those with a more centralised governance framework, there are several mechanisms used to better recognise regional assets at the national level and align resources. Such programmes use labels and co-financing support among other tools.

The current process of alignment between the Technology Strategy Board, the Research Councils and the RDAs shows promise in this area. It should be reviewed and modified if the process does not work as well as it could. Furthermore, flexibility in other national funding streams to support common national-regional goals could also be considered. ■

What could the regions do to augment their innovation strategies?

RDAs lead the efforts to support innovation in their regions with many successes since they were created less than ten years ago. RDAs are important partners for central government because of their role in co-ordinating actions that strengthen the regional environment for innovation as well as in delivering key innovation-related programmes. RDAs should continue to build on these successes and perhaps acknowledge more explicitly innovation-related assets through analysis of the innovation system generally.

The current strategy development process is comprehensive with attempts to align innovation across different aspects of the Regional Economic Strategies. However, alternative mechanisms are required beyond the current structures to bring in more firm perspectives and to cultivate innovation leaders (both public and private).

Some considerations for current innovation strategies include:

- The “narrow” science-focused definition of innovation used in regional innovation strategies reflects the historical national approach, which has recently expanded to a “broader” definition. There may be opportunities to move beyond the current science-focused approach of the Science and Industry Councils (regional advisory councils) without diluting their role as a sub-national voice for supporting science.
- Strengthening multi-disciplinary links given the nature of innovation in the fields where the North has strengths. Several Scandinavian countries offer examples in this area.
- Communicate more clearly to national and international stakeholders on niches of success. This could be achieved through more national-level mechanisms for recognition, as described above, or through other regional vehicles.
- Better serve firm needs by a greater focus on the demand side for services to firms, as opposed to the supply side of higher education institutions (HEIs) which appears to receive a strategic over-emphasis in plans and instruments for increasing innovation activity and private R&D investment.
- Include support for innovation in services not addressed in the Regional Innovation Strategies.

- As the North is characterised by a high percentage of employment in public services, this theme could be addressed in the Regional Innovation Strategies. The proposed nationally designated Innovation Partnerships could offer interesting demonstration projects for innovation in the public sector.
- Support integration of skills and innovation policy approaches at a regional level through influence over national skills agencies as well as by helping to attract high-skilled talent in support of regional innovation goals.
- Consider some of the lessons regarding innovation and rural areas of relevance to the North, some of which are highlighted in a recent report to the Prime Minister by the Rural Advocate.

RDA efforts should not be underestimated. They have a broad mandate which is rather unique in an OECD context. They also face a high barrier to overcome the path dependency of their regions in the UK context given the flows of national funding and limited sub-national fiscal autonomy.

Despite their numerous efforts, it seems unlikely that the RDAs alone can be agents of transformational economic change given their current funding allocations. RDA allocations as a percentage of regional gross domestic product (GDP) are considerably less than 1%, and an RDA may have direct control over as little as 3.5% of the core public resources for economic development and regeneration spent in the region. Nevertheless, RDA funds are relatively flexible funding streams that can serve several roles: as a catalyst, a signal to other levels of government or a gap-filling role not addressed by other funding streams. ■

Will the N8 Research Partnership and Science Cities meet their high goals?

The N8 Research Partnership, launched three years ago, is a grouping of eight of the North's leading research universities targeted to enhance research capabilities, university-industry links and innovation in the North of England. The N8 has developed joint research centres to achieve these goals. It is in its very early stages; but, in its current form the collaboration does not appear likely to support economic transformation in the North despite the potential positive benefits of the initiative.

There are several possible scenarios for future development of the N8 that include continuing on the current path but with modified expectations, focusing more on attracting new researchers (individually and collectively) or increasing the scale of research with additional support. Looking internationally, the Georgia Research Alliance in the US state of Georgia, created in 1990, is a similar effort to boost innovation in a "lagging" region (at the time) that has interesting lessons for the N8 as they move forward.

The UK Government has designated three Science Cities in the North (Manchester, Newcastle and York) and three in other regions in England outside of the Greater South East. These Science Cities aim to use their strong research base to drive city-regional growth through strengthening linkages between business, the public sector and the science community, accelerating the process through which ideas and discoveries are commercialised, and increasing the visibility of these cities to attract talent and investment.

This first national programme to link science, innovation and urban regeneration is refreshing in its experimental and flexible nature allowing adaptation to local circumstances. However, the lack of a national-level

departmental sponsor and the low level of funding constrain its effectiveness. The label effect alone has proven valuable (albeit to a varying extent) in harnessing local energy and collaboration which provides valuable learning for place-based innovation support. Possible scenarios for future development of Science Cities include expanding the lessons to other cities, sub-national initiatives for multi-year funding or (to achieve the scale of other international models) additional new national investment to complement regional/local and private investment. ■

What is the scope for sub-regional and pan-regional action?

Given the economic geography of the North, the scale of regions is often much larger than the functional areas where innovation-related contacts are made. The challenge for cities, as noted in the *State of the Cities* report, is that most of the strategic decisions that have an impact on the economic component of competitiveness are decided above the city level.

As a policy trend, some sub-national entities are starting to include the concept of innovation as a priority area for action. In large metropolitan areas, such as Manchester, there may be the capacity, scale and resources to support innovation. In perhaps smaller scale locations but with a very clear focus (and historically EU funding) such as Tees Valley, there are also opportunities for the local level to fully rally behind key initiatives. These examples illustrate both local success and complementarity with RDA action. The challenge is to recreate these kinds of successes in other areas across the North when there is no label effect (as with the Science City) and no additional funding to help spur local action in areas without a pre-existing history of multi-area collaboration or strong local leadership.

Investment in common strategy building is a necessary precursor for city-region action. At a minimum, as part of new sub-national governance arrangements, the RDAs can serve a strategic resource alignment role with city-regions, and for those city-regions with capacity, sub-contracting delivery when appropriate.

The RDAs and the Northern Way are identifying opportunities to offer support for innovation in a pan-Northern way. In the past, the Northern Way has actively supported the N8 Research Partnership and the Science Cities as a core part of their efforts. As the Northern Way shifts from a programme delivery to a strategy role, the range of options must fit this new organisational model. Given its unique position, the Northern Way can influence national policy and attempt bold experiments.

The goals for pan-regional collaboration to support innovation are most likely to be successful if they address a clear rationale to justify collaboration (critical mass, common problem, increasing specialisation, administrative barriers not mapping to functional boundaries, etc.). Examples of pan-regional co-ordination to support technology and innovation exist across the OECD to respond to these different rationales, such as the Southern Technology Council in the US.

Priorities for action through the Northern Way could include joint economic and policy research that offers new approaches for analysis, lobbying, image and capacity building, experimentation with demonstration projects, support of targeted investments of benefit for pan-Northern competencies, and cultivating innovation entrepreneurs. The actions on a pan-Northern basis need to complement but not substitute for RDA efforts. ■



For further information

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For further reading

OECD (2008), **OECD Reviews of Regional Innovation: North of England, UK**, ISBN 978-92-64-04892-8, € 30, 248 pages.

OECD (2007), **OECD Reviews of Regional Innovation: Globalisation and Regional Economies: Can OECD Regions Compete in Global Industries?**, ISBN 978-92-64-03779-3, € 70, 244 pages.

OECD (2007), **OECD Reviews of Regional Innovation: Competitive Regional Clusters: National Policy Approaches**, ISBN 978-92-64-03182-1, € 50, 296 pages.

OECD (2007), **Regions at a Glance 2007**, ISBN 978-92-64-00987-5, € 50, 252 pages.

OECD (2006), **OECD Territorial Reviews: Newcastle in the North East, United Kingdom**, ISBN 978-92-64-02893-7, € 48, 240 pages.

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