Growing Together
ALLIANCE

Connected Clusters

How maximising the connections between innovation economies around the UK can promote inclusive growth

January 2025

CAMBRIDGE AHEAD

North West Business Leadership Team

Business South

Business West

BUSINESS LDN

THE NORTHERN POWERHOUSE PARTNERSHIP

Contents

Foreword

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Growth is not an abstraction: it happens in specific places. That this reality has been ignored in economic policy for decades helps explain why the UK is one of the most geographically unequal OECD countries, and why its cities outside of London are generally smaller and less productive than comparable cities in other countries.

The new Government's emphasis on the importance of growth – linking Industrial Strategy, new towns, English devolution and skills policies – offers an opportunity to unlock the potential of cities and towns that are the focus of this research, and beyond.

This potential will be achieved only if policies for growth recognise that it is not a zero sum game. Previously, central government has even set localities competing against each other to bid for sums too small to make a meaningful difference to anything. Behind this approach lies an ingrained Treasury scepticism about the limited scope for 'additionality'. In other words, the official view is that greater success for one place simply implies a worse outcome elsewhere.

This view has held back the UK for too long, because growth is by its very nature a positive sum game – it involves virtuous circles of shared know-how, specialised clusters that can engage in high value supply chains, and skilled employees attracting businesses who in turn demand more skilled people. If the possibility of mutual benefit is ruled out by policy design, growth cannot happen.

Acknowledging this dynamic is the spirit animating this report on Connected Clusters. The report puts flesh on the bones of the economic argument, including by drawing on quantitative work my colleagues at the Bennett Institute carried out exploring links between innovative businesses in the cities involved. This report draws on access Growing Together Alliance partners have enabled to key innovation clusters to provide case studies alongside the network analysis in our partner report. The case studies illustrate the way different policy levers offer the opportunity to build connections around the country at the innovation frontier.

The report has multiple recommendations, and I hope that policymakers will engage with the Alliance partners regarding measures that could help unlock innovation and growth around the UK. Some of the measures would require funding, but more involve central government recognising its role in co-ordinating and connecting in order to deliver on its growth mission.

Executive Summary

The Growing Together Alliance: A vision of shared growth

The Growing Together Alliance unites the Northern Powerhouse Partnership, BusinessLDN, Business South, Business West, Cambridge Ahead, and the North West Business Leadership Team to strengthen cooperation and drive good growth across different regions of the UK.

This report outlines the Growing Together Alliance's transformative vision for Connected Clusters, which aims to foster inclusive economic growth by leveraging the interconnections between regional innovation hubs. Historically, economic policies have often taken a fragmented or zero-sum approach to regional development, failing to address regional disparities and missing opportunities for synergies. This report advocates for a paradigm shift - towards a collaborative, interconnected strategy for shared economic growth that maximises connections between the UK's innovation clusters to catalyse the growth of the UK innovation economy whilst also addressing deep-rooted regional inequalities. In some of our areas, the growth achieved on the back of innovation strengths is constrained by housing or lab space; in others, it has been held back by the scale of public funding, despite the private sector investing in regions like Cheshire or the West Midlands.[1] We want to grow together by addressing the issues facing each place and deliver win-wins.

Drawing on insights from interviews with business leaders, academics, and investors across the regions represented by the Growing Together Alliance, this report highlights the key factors driving companies to establish operations in multiple UK locations.

The research complements a parallel report, conducted in collaboration with the Bennett Institute for Public Policy, which provides quantitative data on the sectoral connections between regions. This mapping has begun to illustrate the nature of cluster connections in sectors like Cleantech, Advanced Manufacturing, AI and Life Sciences to support policymakers in their understanding of the UK's innovation economy. Analysis of UKRI data of Innovate UK funded projects over the last decade, undertaken for this report, provides another lens on cluster connectivity.

By mapping the strengths of regional economies, identifying areas of complementarity, and analysing the factors that influence companies to expand within the UK rather than overseas, this research provides a solid evidence base for a more connected and collaborative approach to fostering inclusive economic growth.

Drivers of connected growth

Through research interviews and roundtables with business leaders, academics and investors we have identified five drivers of expansion to multiple UK sites.

Connected People: Leaders of innovative companies consistently identify access to talent and skills as the key driver in their decisions to establish multiple locations around the UK. Knowledge economy companies often expand to new regions to tap into specific academic strengths or complementary talent pools, such as computer science and engineering in Bristol and Cambridge, advanced materials in Manchester, or AI in London. As these clusters grow, a multiplier effect can occur, where professional services firms, such as legal firms specialising in IP, also increase their employment. A multifaceted approach is needed to encourage high-growth innovation companies to consider other parts of the UK for talent, act as catalysts for wider employment growth within clusters, and maintain the UK's competitiveness in attracting the global talent that drives cutting-edge innovation.

1. Encourage innovation companies to identify talent pools within the UK to support them to scale here, by mapping complementary specialisms in regional clusters as part of the Industrial Strategy and Local Growth Plans.

2. Expand access for local people to the innovation economy through further devolution of skills funding, long-term funding settlements and coordinated skills foresighting.

3. Benchmark visa costs and introduce place-based visa quotas to strengthen the UK's competitiveness in the global talent market across priority sectors.

4. Support collaborative innovation projects which involve partner organisations from multiple regional clusters to accelerate the development of specialised talent pools and effectively share resources between regions, drawing on successful collaborations like those between Cambridge and other regional hubs (as evidenced by UKRI data).

Connected Places: Physical connectivity plays a vital role in supporting collaboration between people, making it easier to meet clients and investors, and increasing the functional size of regional economies to enable them to compete on the global stage. Knowledge economy firms emphasise the importance of in-person collaboration - time spent together in offices and on sites remains critical for creating the 'water cooler moments' that drive innovation. However, current infrastructure limitations, particularly East-West connectivity across the South and North of England, hinder economic connectivity and stifle inclusive growth opportunities.

5. Deliver key transport infrastructure projects which will strengthen the connectivity to and between high growth clusters, including East West Rail, HS2 to Euston, Midlands-North West Rail and Northern Powerhouse Rail.

6. Make connectivity between regional innovation clusters a key goal of the UK's Ten-Year Infrastructure Plan.

7. Introduce flexibilities for transport infrastructure business cases to accommodate long-term labour market impacts.

Connected Capital: A lack of domestic innovation capital often forces promising UK-founded companies to relocate, partially or wholly, overseas during their scaling phase. Increasing the overall availability of growth capital in the UK would help innovation startups scale domestically, enabling them to take root and expand to other UK clusters. In doing so, internationally competitive firms within world-leading clusters can be encouraged to remain in the UK, sharing the benefits of their growth with other regions.

8. Increase the availability of innovation capital to support innovation companies to grow domestically, by boosting government-curated VC funds, improving investment incentives, and leveraging pension funds.

9. Develop the leadership of scaling firms by supporting programmes that build skills in commercialisation and connecting emerging clusters with experienced Angel Investor networks and scale-up hubs.

10. Expand place-based seed funding initiatives, such as Northern Gritstone and InvestNI, to spur growth in key innovation clusters across the UK.

11. Boost total R&D investment as a proportion of GDP to 3.5%+ to align with global competitors and reduce regional inequalities without reducing spending in clusters which are current highest recipients. Encourage Mayoral Combined Authorities to develop their own regional R&D spending targets as part of Local Growth Plans.

Connected Leadership: Effective local leadership, particularly in regions with devolved powers, is critical to driving growth and fostering connections between innovation clusters. Mayors and equivalent leaders can serve as vital figureheads, instilling confidence and promoting regional economic strategies. However, their potential is often constrained by limited funding and decision-making powers. Strengthening local governance by aligning housing, planning, transport, and skills with each region's economic geography - and providing local leaders with the right powers and flexibilities - can help identify and support growth opportunities, thereby enhancing economic connections between regions.

12. Support local leaders to produce clear and long-term local economic strategies that provide a foundation for regional economic collaboration, through the timely reintroduction of strategic spatial planning and effective integration of Local Growth Plans within the national Industrial Strategy.

13. Reorganise Local Government structures to bring the levers of economic growth as close as possible to local economies and extend trailblazer deals and deeper fiscal devolution to all Mayoral Combined Authorities.

Connected Cultures: Business leaders consistently choose UK locations for growth based on their 'culture of innovation' – a sense that a place is vibrant, dynamic and provides good quality of life for staff. They cite the importance of local networks, academic and research institutions connected to industry, and their own personal connections to a place as drivers of location decisions. These connections and cultures help to create the 'stickiness' that makes it easier to attract and retain staff. However, there are some concerns that innovation-led growth can put downward pressures on quality of life without the right policy interventions such as transport infrastructure and affordable housing.

14. Promote cross-regional engagement between business, academic and public sector leaders to encourage collaborative networks that build an ecosystem, and in turn influence business location and investment decision-making. The Growing Together Alliance will directly support established investor networks to engage with emerging innovation clusters as part of this.

15. Proactively cultivate good quality of life in innovation clusters to support recruitment and retention of people and mitigate negative externalities of innovation-driven growth, including through provision of affordable housing across functional economies and consideration of the social and cultural infrastructure as part of the Ten-Year Infrastructure Plan.

Introduction

Government policy has struggled for many years to grow the economy nationwide or tackle unacceptable regional inequalities

Economic development policy in the UK is characterised by a high degree of churn. Between 2017 and 2022, three different Prime Ministers announced four separate economic development strategies in just five years.[2] Longstanding inconsistency in national policy has knock-on effects at the regional and local levels, undermining business and public sector confidence and inhibiting long-term, sustainable economic planning.

The result has been sluggish economic growth and the widening of entrenched regional inequalities.[3][4] While some regions get left behind, other areas are overheating, with rising pressure on housing, transport, utilities and public services and significant inequalities in income, educational attainment, and life expectancy.[5]

The Labour Government has made economic growth one of its five core missions and is currently developing a modern Industrial Strategy to lay the foundations for this growth. The new Modern Industrial Strategy represents a significant opportunity to reframe the country's approach to growing the economy around a model of inclusive innovation that benefits all regions.

A long-term economic development strategy is needed, built on an understanding of the interconnections between regional economies

To date, UK policy towards regional economies has been overly focused on a competitive approach that looks to either allocate resources to places that are doing well, or that looks to move funding away from these places in an attempt to spread growth more widely across the country. Tackling the puzzle of inclusive economic growth across the country is not easy, but one often overlooked strand of research is understanding the interconnections between regional economic clusters.

> **"... [LEVELLING UP] TENDS TO TREAT LOCAL ECONOMIES (BE THESE CITIES, TOWNS OR LOCAL AREAS) AS IF THEY ARE ISOLATED ISLANDS, RATHER THAN COMPLEX AND PARTLY OPEN SYSTEMS WHICH FORM NODES IN WIDER INTERCONNECTED NETWORKS."** [6]

Where a collaborative approach has been suggested, it has been a 'trickle-out' or 'brains and brawn' model, with arguments that innovative agglomerations will inherently have positive spillovers, or that knowledge intensive businesses and sectors should consider establishing manufacturing centres in more 'left-behind' places. These arguments negate the effects of market failures which have so far limited the impact of innovation clusters on collective challenges.[7] They also obscure the fact that both knowledge intensive businesses and manufacturing activity is spread across the country.[8]

Regional economic growth is not a zero-sum game, and by building a better understanding of the interconnectivities between our local economies we can better understand how to grow more inclusively for the whole country.

This could then inform a policy approach that seeks to maximise these connections, leveraging the success of 'steaming ahead'[9] and adding a greater degree of local insight and depth to the original vision of 'Levelling Up', while maintaining the goal of 'growing the economic pie, everywhere and for everyone', which is also echoed in Labour's plans to 'Power Up' in 'every corner of the country'.[10 11]

The Growing Together Alliance presents an opportunity to better understand the connections between innovation clusters around the UK and promote a more collaborative model of economic growth

The Growing Together Alliance consists of the Northern Powerhouse Partnership, BusinessLDN, Business South, Business West, Cambridge Ahead and the North West Business Leadership Team, and exists strengthen cooperation and drive good growth across different parts of the country.

The Growing Together Alliance provides an opportunity to look across these different economies and assess the existing and potential connections that exist between them.

This approach will help to support the move away from a 'zero sum' approach to regional economic development, and instead take a more nuanced approach that understands and builds on the already existing connections and strengths of the different regional economies.

This involves exploring the role played by long-established and globally competitive clusters like Cambridge and London which are able to attract or home-grow international companies in knowledge intensive sectors, which then scale and take root in other regions of the UK. It also includes deepening our understanding of cities and regions that are developing new innovation economies, in clusters like Sheffield and Bristol, the role of the knowledge and people in established clusters in supporting these emerging economies to grow and scale, and the bidirectional impacts of these relationships.

The Vision:
Connected Clusters

The UK needs a modern industrial strategy, which grows the overall UK economy by identifying and supporting growth-driving innovation sectors.

These sectors are made up of highly innovative firms which are clustered together, typically in urban hubs, where they benefit from agglomeration effects and proximity to academic institutions.

These clusters operate within global supply chains, and companies make decisions about investment and expansion within a highly competitive, international context. Alongside international competition, Government policy has previously pitted UK regions against each other in a 'zero sum' approach.

For innovative companies to choose to grow in the UK – and for the UK to achieve its growth ambitions inclusively – a more collaborative approach is needed; one which ties regional economies together to be greater than the sum of their parts.

By understanding the strengths of different regional economies, where complementarity exists between different clusters, and the factors that drive companies to grow within the UK rather than overseas, this research intends to provide an evidence base for a more collaborative and connected approach – Connected Clusters.

> **"IT'S NOT ABOUT PICKING WINNERS; WE NEED REALLY STRATEGIC CLARITY ABOUT THE SECTORS AND TECHNOLOGIES THE UK IS GOING TO BACK. THESE ARE THE AREAS WE HAVE REAL POTENTIAL FOR GLOBAL LEADERSHIP."**
>
> Interviewee (Advanced Manufacturing)

CASE STUDY

Xampla – The Vision in Practice

Xampla is a Cambridge-based materials innovation company unlocking the power of plant polymers to create natural materials that change the world. Its technology is grounded in 15 years of fundamental protein research at the University of Cambridge. Xampla launched its world-first Morro™ materials, developed at the Bio-Innovation Centre at Cambridge Science Park, in 2023.

Morro™ materials are world-first plastic-free materials, made from natural plant polymers, without any chemical modification. They are fully biodegradable with excellent barrier properties. Morro™ materials can drop-in to existing manufacturing supply chains.

Xampla works with industry partners to licence its technology for manufacturing uses, and as a result, its innovative natural polymer technology helps to create and support jobs around the UK.

In late 2023, Xampla announced its first technology licensing agreement with 2M Group of Companies, enabling Morro™ Coating to be manufactured at scale in Milton Keynes. In June 2024, Xampla announced further partnerships with companies with sites in the UK such as Huhtamaki (Gosport, Manchester and Belfast) and, in October 2024, Transcend Packaging (South Wales). Xampla also works with other organisations like the Quadram Institute, based in Norwich, and Britvic.

By 2029, Morro™ Coating has the potential to replace 25,000 tonnes of plastic coating that would otherwise be destined for landfill, incineration, or environmental release.

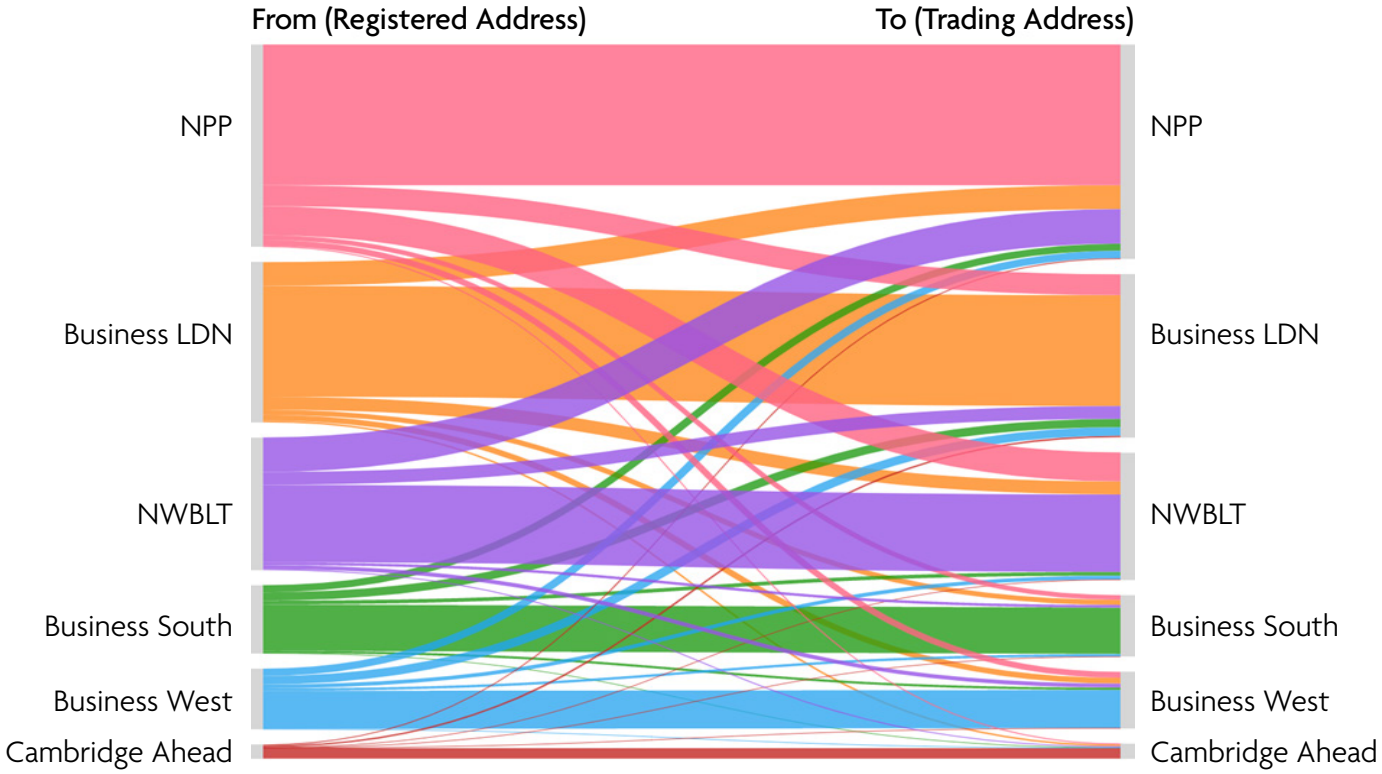
Xampla is an example of world-leading academic research being effectively commercialised to tackle global plastic pollution, forging international partnerships while supporting jobs in diverse sectors across the country.

Methodology

The Growing Together Alliance is undertaking a blend of qualitative and quantitative research to map and understand the country's Connected Clusters.

The Growing Together Alliance has conducted qualitative interviews with employers that have a presence across different regions to understand the drivers of their UK expansion and the factors influencing their future decisions about UK-based growth. The interviews gathered views from firms which collectively employ over 55,000 people in the UK knowledge economy. Alongside a roundtable session with leading investors, these qualitative interviews have enabled the Alliance to identify five drivers of connected growth explored in this report.

Separately, working with the Bennett Institute for Public Policy, the Alliance is assessing where innovation companies have a footprint across multiple locations in the UK. This quantitative research is using The Data City's Real Time Industrial Classifications (RTICs) database to map the registered and trading addresses of knowledge-intensive businesses and build up a picture of the regional interconnections within the sectors of the future, including Cleantech, Advanced Manufacturing, AI and Life Sciences. A report will be published on this mapping project in early-2025.



Business flows across Growing Together Alliance Regions.
Bennett Institute for Public Policy.

FINDING 1:
CONNECTED PEOPLE

Leaders of innovative companies identify access to talent and skills as the key driver of their decisions to establish multiple locations around the UK.

Companies describe opening new locations to access diverse talent pools not available to them at scale in their first location, often due to specific strengths of academic institutions. For example, one Bristol-based semiconductor company initially expanded to Cambridge due to the quality of its engineering and computer science graduates, and later expanded into London for access a wider pool of AI researchers.

> **"AVAILABILITY OF THE TALENT MARKET IS OUR NUMBER ONE DRIVER. WE'VE DELIBERATELY PICKED PLACES IN DIFFERENT PARTS OF THE COUNTRY TO TAP INTO DIFFERENT TALENT MARKETS".**
>
> Interviewee (Technology)

Some firms, particularly those whose business model relies on developing innovative Intellectual Property (IP) described reaching a point of saturation in their founding locations, where the local skills pipeline was no longer sufficient to support their growth trajectory. At this decision point, they sought talent pools far enough away from their original location so as not to draw headcount from their first location. For example, one global technology company based in the East of England explained that they did not expand into London due to its proximity to their original headquarters, and instead looked further afield within the UK for a more discrete and complementary talent pool.

> **"IF YOU WANT TO GROW FASTER THAN YOUR ORGANIC RATE, YOU HAVE TO GO TO A NEW TALENT POOL."**
>
> Interviewee (Professional Services)

Innovation leaders identified their relationships with universities as key to accessing the best talent, and some are involved in active collaboration with universities to shape curricula and provide information about their sectors to the next generation. Similarly, some interviewees identified expanding the provision of apprenticeships as an important route into widening employment in their sector. Nevertheless, a common theme across interviews was that as innovation companies scale up, they will need to look further afield for talent – in the UK or otherwise.

As has been observed by the Bennett Institute for Public Policy, a significant gap in the UK industrial strategy landscape is a shared understanding of where these pockets of specialisation exist – both in terms of skills but also supporting infrastructure and associated supply chains.[12]

Some interviewees described interventions they are part of to create the necessary skills pipeline within the UK. For example, one London-based higher education interviewee created a 'branch campus' in collaboration with a university based on the south coast, where places for students in an area of significant skills shortage are funded by the former institution and courses are taught by academics from both universities.

While access to talent informed the decision-making of all companies, some of those in professional services expressed a desire for a smaller footprint in order to maintain proximity to clients and to ensure that staff had strong local networks and knowledge to support business development.

> **"YOU NEED PEOPLE ON THE GROUND WHO UNDERSTAND THE LOCAL RELATIONSHIPS."**
> Interviewee (Professional Services)

Interviewees were clear that there is a risk that gaps in UK skills system risk firms moving overseas to access the talent they need to grow. Notable cross-cutting concerns included a shortage of C-Suite experience and commercialisation expertise in the UK startup scene, with many firms looking to the US for these skills as they scale up and eventually moving more functions overseas to align with the commercial side of the business.

The sectors of the future – AI, life sciences, advanced manufacturing – are global, and so are their talent pools. Across sectors, companies were clear that their ongoing growth within the UK is dependent on the country's ability to continue to attract the best talent from around the world.

Recommendations

A multifaceted approach is needed to encourage high-growth innovation companies to consider other parts of the UK for talent, act as catalysts for wider employment growth within clusters, and maintain the UK's competitiveness in attracting the global talent that drives cutting-edge innovation.

1. Encourage innovation companies to identify talent pools within the UK to support them to scale here:

- The Industrial Strategy should provide resource to map regional specialisms in key sectors and research disciplines, supporting investors and employers to see where strengths exist and promote investment into cluster growth focused on specific regional strengths. This talent mapping should build on positive past Government initiatives, like Science and Innovation Audits, to consider complementary specialisms under the framework provided by the Industrial Strategy.
- The Ministry of Housing, Communities and Local Government (MHCLG) should engage closely with Mayoral Combined Authorities (and other local leaders where MCAs do not currently exist) to ensure that Local Growth Plans effectively capture the comparative advantages and specialisms of regional clusters, as part of an integrated approach to identifying strengths and complementary talent pools across the UK.

2. Promote better access to jobs in innovation clusters for local people:

- The Government should continue to devolve further skills funding to local authorities, because skills provision and labour market ecosystems are intrinsically local and are best managed with local insight and leadership. This devolution should form the basis of more consistent and long-term funding settlements to the sector, building on the positive announcements in the 2024 Autumn Budget, so that long-term strategies for training, recruitment and upskilling can be developed to support local economic development.
- Skills England should lead national coordination between government, academia and businesses across the local, regional and national level to ensure the skills system is responsive to changing, complex and interdisciplinary skills needs of the economy. This national coordination and skills foresighting should be aligned with Local Skills Improvement Plans, with the aim to provide the national framework for a place-based approach to provision of skills training which maximises the collective power of talent pools across the UK.

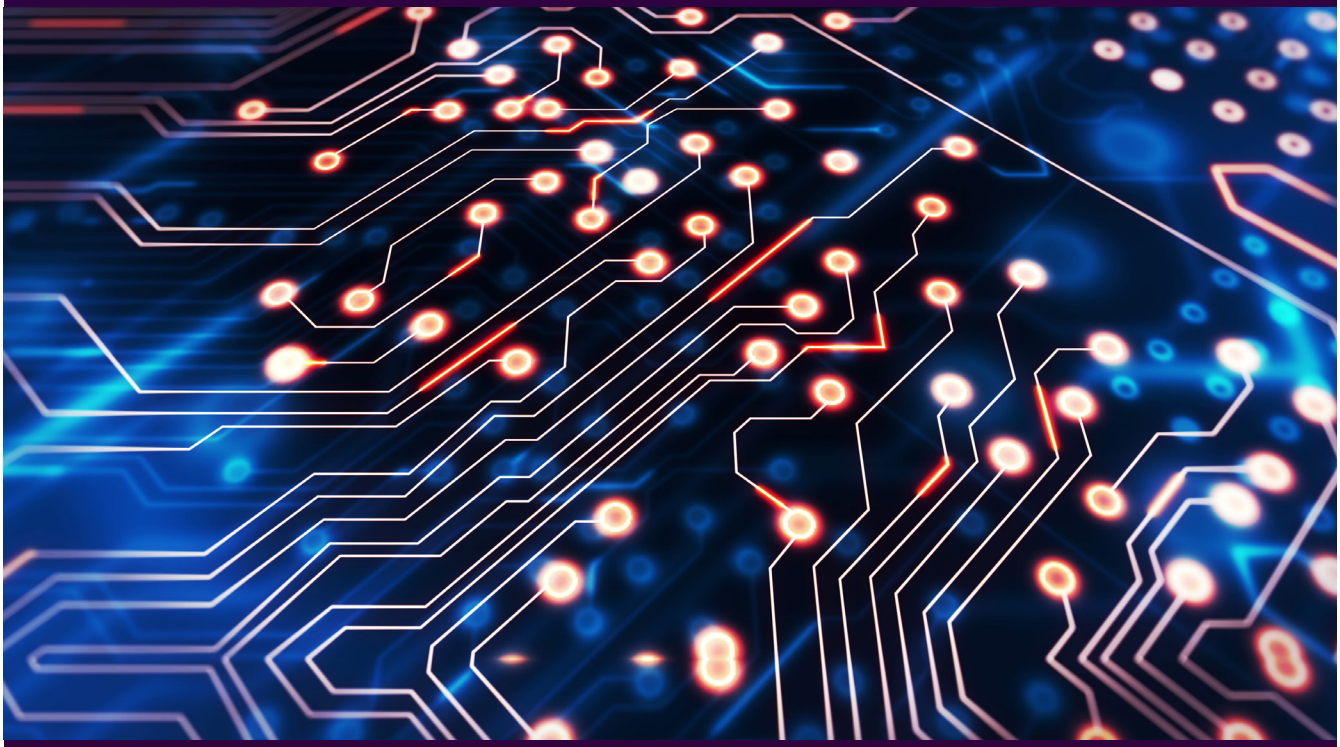
3. Strengthen the UK's ability to attract the best and brightest from around the world:

- The Home Office should benchmark work visa costs against international comparators in order to ensure the UK can continue to attract international expertise.
- The Department for Science and Technology, MHCLG, Department for Business and Trade should develop a shared strategy for place-based visa quotas, which streamlines processes and reduces costs to grow talent pools in priority sectors identified through cluster mapping, Local Growth Plans and the Industrial Strategy.

4. Support collaborative innovation projects which involve partner organisations from multiple regional clusters to accelerate the development of specialised talent pools and effectively share resources between regions, drawing on successful collaborations like those between Cambridge and other regional hubs (as evidenced by UKRI data).

CASE STUDY

Arm – world leading IP driving the future of computing



Arm was founded in Cambridgeshire in 1990 and is today a world-leading compute platform company. Historically specialising in the design of low-power, high-performance microprocessors, Arm technology is found in over 99% of the world's smartphones as well as laptops, automotive, infrastructure, and the Internet of Things (IoT). Together with the world's largest computing ecosystem and 20 million software developers around the world building on its architecture, Arm will power the next generation of AI applications.

With its HQ in Cambridge and offices around the world, Arm creates jobs in research, development, engineering, licensing, global business strategy, marketing leadership and management both within its organisation and in the wider tech ecosystem. Arm licenses its designs to global partners, supporting innovative products across industries and driving a global hub of innovation in semiconductor design around Cambridge.

Arm now has over 3,000 employees at its global HQ on Fulbourn Road in Cambridge and has expanded around the UK, with offices in Manchester, Sheffield, and Bristol. Arm demonstrates how world-leading talent and skills can develop into a globally significant technology business which has tangibly impacted billions of people, while maintaining a strong presence not only in its original Cambridgeshire site, but in clusters around the UK and across the world.

FINDING 2:
CONNECTED PLACES

Physical connectivity between clusters is a very strong priority for businesses, investors and academic institutions.

Despite the rise in hybrid and remote working in recent years, knowledge economy firms stress that they feel time spent together in offices and sites remains extremely important for creating the 'water cooler' moments that drive innovation.

Poor transport connections act as a barrier to establishing new connections between regions or a direct presence in them, as well as acting as an impediment to city-to-city partnerships. For example, businesses raise the journey time between Cambridge and Manchester as well as East-West connectivity in the north of England as specific disincentives to establishing a presence across these geographies.

Connectivity was raised as crucial for professional services companies, who want to be as near as possible to their clients. However, even in companies with IP-focused business models, there is a desire to be able to bring teams physically together across locations. Proximity facilitates a culture that supports informal interactions which are important for building social capital and generating new ideas. Companies also emphasise the importance of a consistent corporate culture, which is easier to maintain when teams are co-located within existing innovation ecosystems or easily able to sustainably travel between them.

Transport connectivity is viewed as essential within the global context of innovation clusters. Sustainable transport options can create functionally much larger economic areas, with larger client and talent pools, meaning that clusters which could not compete with their international comparators alone are able to do so as part of a wider connected geography. For example, the total size of the Oxford-Cambridge Supercluster region (2.8m acres) is similar to Silicon Valley or Boston.[13] Transport projects like East West Rail have the potential to unlock wider economic areas, supporting growth particularly around public transport nodes.[14] Sustainable physical connectivity between regions not only widens the footprint of local economies, creating interconnected economic geographies which can genuinely compete on a global scale, but it also improves quality of life – thereby supporting attraction and retention of global companies and talent.

Interviewees explained that transport connectivity also partly drives their decisions to locate within urban areas, closest to transport hubs, and some described consolidation strategies whereby they had reduced their geographical footprint to a smaller number of better-connected locations. Interregional transport infrastructure, including mass rapid transit systems, and revenue raising measures were suggested as ways to expand the footprint of specific clusters.

Some companies expressed a desire to maintain a more regional footprint, to stay close to clients and grounded in specific clusters' cultures to support business development. However, many raised international connectivity as crucial to supporting their growth, particularly for supporting meetings with investors, research partners or international clients. For example, one scaling company described initially opening locations in university cities but eventually needing a corporate presence in London to act as a base for partnerships and to attract investors.

> **"WE NEED PEOPLE TO BE ABLE TO TRAVEL TO OUR [RESEARCH] HUBS, BUT INTERNATIONALLY AS WELL... TRANSPORT HAS BEEN A DECIDING FACTOR IN OUR DECISIONS SO FAR."**
>
> Interviewee (Technology)

Recommendations

Physical connectivity between cities and regions as well as proximity to other businesses and institutions remains crucial for fostering collaboration and innovation. A long-term infrastructure plan is essential to create a genuinely interconnected network of thriving economic hubs around the country, broaden functional economic areas, and expand talent pools.

5. Deliver key transport infrastructure projects which will strengthen the connectivity to and between high growth clusters:

- The Government should accelerate the delivery of transport infrastructure projects which increase connectivity across the regions covered by the Growing Together Alliance: East West Rail, HS2 to Euston, Midlands-North West Rail, and Northern Powerhouse Rail.
- Local Authorities, including Mayoral Combined Authorities where they exist, should ensure that major interregional transport infrastructure is effectively incorporated into integrated regional transport strategies.

6. HM Treasury (HMT) and the National Infrastructure and Service Transformation Authority should make connectivity between regional innovation clusters a key goal of the UK's Ten-Year Infrastructure Plan.

7. Introduce flexibilities for transport infrastructure business cases to accommodate long-term labour market impacts:

- The Department for Transport and HMT should specifically consider where flexibilities can allow for the positive externalities of transport infrastructure to be captured in business cases, such as employment supported over the long-term in high productivity sectors. The level of direct return must be recognised alongside wider ranger benefits, particularly in order to balance regional inequalities in the current application of the Green Book which can disadvantage transport investment in areas outside of the Greater South East.

CASE STUDY

Mission Street – Developing the next generation of connected UK science and technology infrastructure

Mission Street was founded in London in 2017, focused on creating and managing specialised properties to support research, innovation, and development in science and technology. Mission Street's projects cater to the needs of cutting-edge industries by providing environments conducive to discovery, R&D, and manufacturing. These projects, totalling 1.5m sq ft, are based in various parts of the UK, focusing on well-connected areas with robust innovation ecosystems and collaborative opportunities to enhance their mission.

Mission Street undertakes projects that focus on transforming accessible urban spaces into hubs for science, innovation, and collaboration. For example:

- **Inventa:** in Oxford's West End, Inventa is a purpose-built 65,000 sq ft lab and office building a 1-minute walk from the city's Park and Ride and a 10-minute walk to its train station. It serves as the first step in establishing a major innovation district near Oxford's city centre. The site, which transformed former retail warehouses, provides state-of-the-art amenities such as collaboration areas, eco-friendly design elements, and proximity to transport hubs. Mission Street have recently started the construction of Fabrica, a 180,000 sq ft building in the second phase of its masterplan. The developments are part of a larger 2.5 million sq ft pipeline of science-focused facilities emerging in the West End Oxford.
- **District East:** District East is a 23-acre, 1m sq ft urban innovation district in East Cambridge, one of the UK's largest of its kind. The district will cater to all companies from start-ups to multinationals, allowing them to meet their growth ambitions without having to split their operations across locations or move abroad. Uniquely for science and innovation schemes, District East is pedestrianised and publicly accessible. It is set within a new urban country park with play spaces for children, a diverse food and drink offering, community events space and an Artist in Residence. District East is expected to create 4,000 jobs including training and apprenticeships, with a mandated Cambridge Living Wage.

Mission Street exemplifies adaptive reuse, transforming existing buildings to meet modern scientific and technology needs. They are an example of the connected infrastructure needed to facilitate the proximity and collaboration that powers the UK innovation economy.

FINDING 3:
CONNECTED CAPITAL

A key consideration for investors in innovation clusters around the UK is that once firms begin to scale they often turn to the international market to raise further capital, and in time this can lead decision-making, leadership and eventually the firms themselves to be relocated outside of the UK.

Increasing the overall amount of growth capital in the UK would help innovation startups to scale here, taking root and expanding to other clusters around the country. In this way, firms that are internationally competitive within world-leading clusters can be encouraged to remain in the UK and spread the benefits of their growth materially to other areas.

> **"IF THE ECOSYSTEM IS BIG ENOUGH, IF THERE IS THE CRITICAL MASS OF COMPANIES, THE MONEY COMES AND COMPANIES DON'T NEED TO RELOCATE."**
>
> Interviewee (Life Sciences)

Encouraging more private investment, particularly from UK pension funds, could boost the innovation sector across the UK and help to derisk propositions for private investment. Interviewees in high-growth, innovative sectors say that place-based and sector-specific investment funds and initiatives have been successful, such as Invest NI and the Northern Gritstone. For example, the expansion of Cambridge-founded software firm AVEVA in Northern Ireland – where 62 people will be employed in Derry – explicitly refers to the support, advice and guidance offered by Invest NI as influencing the decision.[15] Northern Gritstone was raised as having the potential to build up critical mass of innovation spinouts in Manchester, Leeds and Sheffield. QantX, operating out of Truro, Exeter and Bristol was provided as another example of a promising, place-based and innovation-focused fund. Initiatives providing a combination of incubation facilities, networks and dedicated VC like the University of Bristol's 'Science Creates' programme are seen as good examples of joined-up combined support across investment, advice and guidance.

British Business Bank initiatives, specifically Northern Powerhouse Investment Fund (NPIF) and the South West Investment Fund (SWIF), were raised as positive examples of investment expertise beginning to be more dispersed around the UK and flowing to new, innovative companies. The UKRI Strength in Places Fund (SIPF) was highlighted as another positive step in this regard. A wider perspective on the return of these kinds of investments, such as indirect employment supported by spinouts, was raised as a way of better understanding their impact. For example, innovative spinouts in a university city supported by a place-based investment fund may support professional services jobs in other areas, but these wider positive effects are not considered when investment decisions are being made.

Where capital can be found in the UK, firms are keen to seek it. Where it comes from overseas, it can lead to economic growth that might have taken place here happening elsewhere instead. For example, PsiQuantum, initially a Bristol University and Imperial University spinout, received significant public funding from the USA and Australia and now has employment based in both countries. It only opened its first employment location in the UK in 2023, at the Daresbury Laboratory in Warrington.

Alongside the growth capital itself, there is the experience and expertise of those that have scaled and exited successfully – which exists in pockets in the UK. Senior staff with experience of leading successful scale ups are critical, and these individuals are often globally mobile which puts innovation economies in direct competition for them with international cities. Bringing startups and spinouts to a 'state of readiness', and particularly ensuring they have the relevant experience in their management teams, is essential for building the confidence and profile that attracts investors. Across both the capital and expertise domains, there is a sense that a lack of

experienced input is leading to a lack of impact. For example, angel investors cite a familiar trajectory of start-ups that receive investment without advice as *"not likely to fail, and not likely to scale."*

In fact, in a roundtable conducted with angel investors as part of this research, participants agreed that a significant portion of their value in supporting innovative companies has been the experience and expertise of those that have scaled companies and been active in markets, with the capital they provide being a secondary benefit. For advice-first angel networks to succeed, there needs to be a place-based resource to organise them, programmes of networking and events, and links to major employers and academic institutions to offer wider benefits.

Investors also highlight short-termism in delivering support for founders as a constraint on their growth. Similarly, accelerator and incubator programmes are often funded for the short term and leave a gap when discontinued. This disadvantages founders and firms in the pipeline who are bringing their ideas to market during a lull in provision and inhibits connections between clusters by dissuading other investors. Inconsistent approaches among universities to spinout ventures, including the size of the stake universities seek in different areas, are another challenge.

Recommendations

8. Support UK innovation companies to forge their path in the UK for longer (rather than being acquired at critical growth stages and relocating) by increasing the amount of capital available via active VC funds, including those that are curated by Government:

- The Government should explore a variety of avenues for increasing capital including through greater alignment of investment incentives to scale-ups, consolidation and investment of pension funds and through the Mansion House reforms.

9. Identify and support programmes that boost management and leadership capabilities within innovation companies:

- Mayoral Combined Authorities and other relevant local partners should identify and provide direct support to programmes focused on improving leadership, commercial and management skills in innovation companies, such as Be the Business.
- Employer networks should facilitate connections between pockets of scale up/investment expertise. The Growing Together Alliance will work to support partnerships between established Angel Investor networks and emerging clusters.

10. HMT and DBT should support the further role out of city and/or region-based seed funds such as Northern Gritstone and InvestNI to target investment towards growth in key clusters, aligned with the Government's sector priorities.

11. Increase R&D spending as a proportion of GDP to align with international competitors:

- The Government should aim for R&D spending as a proportion of GDP comparable to countries like Germany, with an R&D spending goal of 3.5% of GDP over this parliament with ambition to raise this further over the ten-year period of the Industrial Strategy.
- Mayoral Combined Authorities should be encouraged to develop their own regional R&D spending targets as part of Local Growth Plans, learning from ambitious plans in places like the Liverpool City Region (5% of GVA by 2030).

CASE STUDY

UKRI Innovate UK Data – Public funding supporting research collaborations between connected clusters

Innovate UK, part of UK Research and Innovation (UKRI), is the UK's innovation agency. It provides grant funding to research projects from around the UK to support the development and commercialisation of new products, processes and services.

Evidence from the Innovation Caucus shows that for every £1 Innovate UK invests in businesses, there is a 73p increase in the GVA of the recipient and this public funding works effectively to incentivise private investment, with every £1 of Innovate UK grant funding leading to an increase in business R&D spending of 34p.[16]

Analysis by The Growing Together Alliance of Innovate UK data further emphasises the interconnected nature of research and innovation. Taking Cambridge-based organisations as an example, Innovate UK data reveals Cambridge is part of a complex and interconnected web of regional R&D clusters. Around 2,000 Innovate UK funded R&D projects involved a partner from Greater Cambridge between 2010 and 2023. Over half of the other partners in these projects were based outside of the greater South East, including 262 R&D partners from the East Midlands, 246 from the West Midlands and 215 from the North West.

2,611
Partner organisations located outside East of England

including...

262
Partners from East Midlands

246
Partners from West Midlands

215
Partners from North West

This analysis shows not only how Innovate UK reinforces the role that public funding can play in supporting early-stage research and derisking investment propositions to incentivise private funding, but also reveals the ways in which innovative research happens in collaboration, often anchored in internationally leading research clusters but involving all geographies across the country.

FINDING 4:
CONNECTED LEADERS

Local leadership and local government support, especially in regions with devolved powers, are recognised by business leaders and investors in innovation clusters as beneficial for growth and a potential driver of new connections to other clusters

In particular, effective local Mayors are highlighted by businesses and universities as important figureheads and spokespeople for their regions, and the role they play in providing a 'go-to' is valued.

> **"[ANDY BURNHAM] ACTS AS A SPOKESPERSON FOR THE MANCHESTER REGION, HE RAISES THE PROFILE – SOMEONE NEEDS TO CUT THROUGH PARTY POLITICS AND MAKE DECISIONS THAT ARE RIGHT FOR THE CITY."**
>
> Interviewee (Professional Services)

However, the effectiveness of these leaders was seen as limited by their financial and decision-making constraints and some employers are wary of what they see as further layers of government. Interviewees have consistently advocated for a more strategic, long-term approach to regional development, with better coordination across government levels. Interviewees agreed that consistency and long-term thinking, across political cycles, is important to instil confidence in an area's economic potential.

> **"WE NEED TO HAVE GENUINE STRATEGIC THINKING, WITH LONG-TERM PLANS THAT DON'T GET TURNED UPSIDE DOWN EVERY TIME THERE IS ELECTORAL CHANGE... SHORT TERMISM KILLS US."**
>
> Interviewee (Professional Services)

Specific examples of how devolved authorities might support co-location and economic growth were referenced, such as the provision of 'peppercorn' rents to encourage businesses to move to an area, the establishment of a clear and consistent local economic strategy and the ability to target adult education and skills funding to local needs. For example, one company referenced an agreement with a Mayor to open an office in their city for 12 employees, initially paying reduced rent; with this foothold in the region, the office has now expanded to hundreds. Other interviewees referred to constructive conversations with devolved leaders about office locations that had led them to locating in a specific region, due to the confidence it gave them in the local area rather than any specific financial incentive.

Some companies also raised the importance of strategic leadership in local institutions, such as universities, as a key driver of connected growth. Positive relationships between university chancellors, for example, can drive research collaborations which ultimately lead to commercial collaborations, with personalities playing an important role in the successful commercialisation and growth of ideas originated in academic settings.

> **"IT'S NOT ENOUGH TO HAVE A GOOD UNIVERSITY, IT'S ALSO IMPORTANT THAT THAT UNIVERSITY TRANSLATES RESEARCH AND COLLABORATES WITH INDUSTRY"**
>
> Interviewee (Life Sciences)

> **"MUCH DEPENDS ON WHO IS AT THE TOP OF UNIVERSITIES AND THEIR SPECIALISMS."**
>
> Interviewee (Professional Services)

Interviewees also suggested that national bodies and resources could be better put to work to support inclusive and connected growth across regions. Homes England, National Rail and the Canal & River Trust were all referenced as bodies which could support connected growth and regeneration effectively by acting strategically and collaboratively with local leaders. Across government at the national level, interviewees expressed a desire for greater coordination and clarity of approach. An employer in the life sciences sector highlighted the challenge of engaging with the Office for Life Sciences, Department for Business and Trade, Department for Science and Technology and other departments on a specific location decision for an immunology company which made coordination difficult. The development of the Government's ten-year Industrial Strategy was highlighted as a positive step which could help to give confidence in innovation sectors and better align funding and support.

> **"IT'S THE TECHNOLOGY AND PRODUCT LEADERSHIP THAT ANCHORS INDUSTRIES."**
>
> Interviewee (Advanced Manufacturing)

Recommendations

Strengthening local governance by aligning housing, planning, transport, and skills with each region's economic geography - and providing local leaders with the right powers and flexibilities - can help identify and support growth opportunities, provide leadership to long-term economic growth plans, and enhance economic connections between regions.

12. Support local leaders to produce clear and long-term local economic strategies that provide a foundation for regional economic collaboration:

- MCHLG should bring forward the reintroduction of strategic spatial planning powers as quickly as possible to facilitate wider cooperation across economic geographies and enable local land use strategies to better meet economic needs.
- The Government should work closely with local leaders to ensure that Local Growth Plans take account of economic growth strategies across other innovation clusters in the UK, so that they feed into an integrated Industrial Strategy which maximises complementary strengths and specialisms.

13. Reorganise Local Government structures to bring the levers of economic growth as close as possible to local economies:

- The Government should pursue trailblazer deals and deeper fiscal devolution to all Mayoral Combined Authorities, where their performance is sufficient, exploring further freedoms for other relevant authorities.

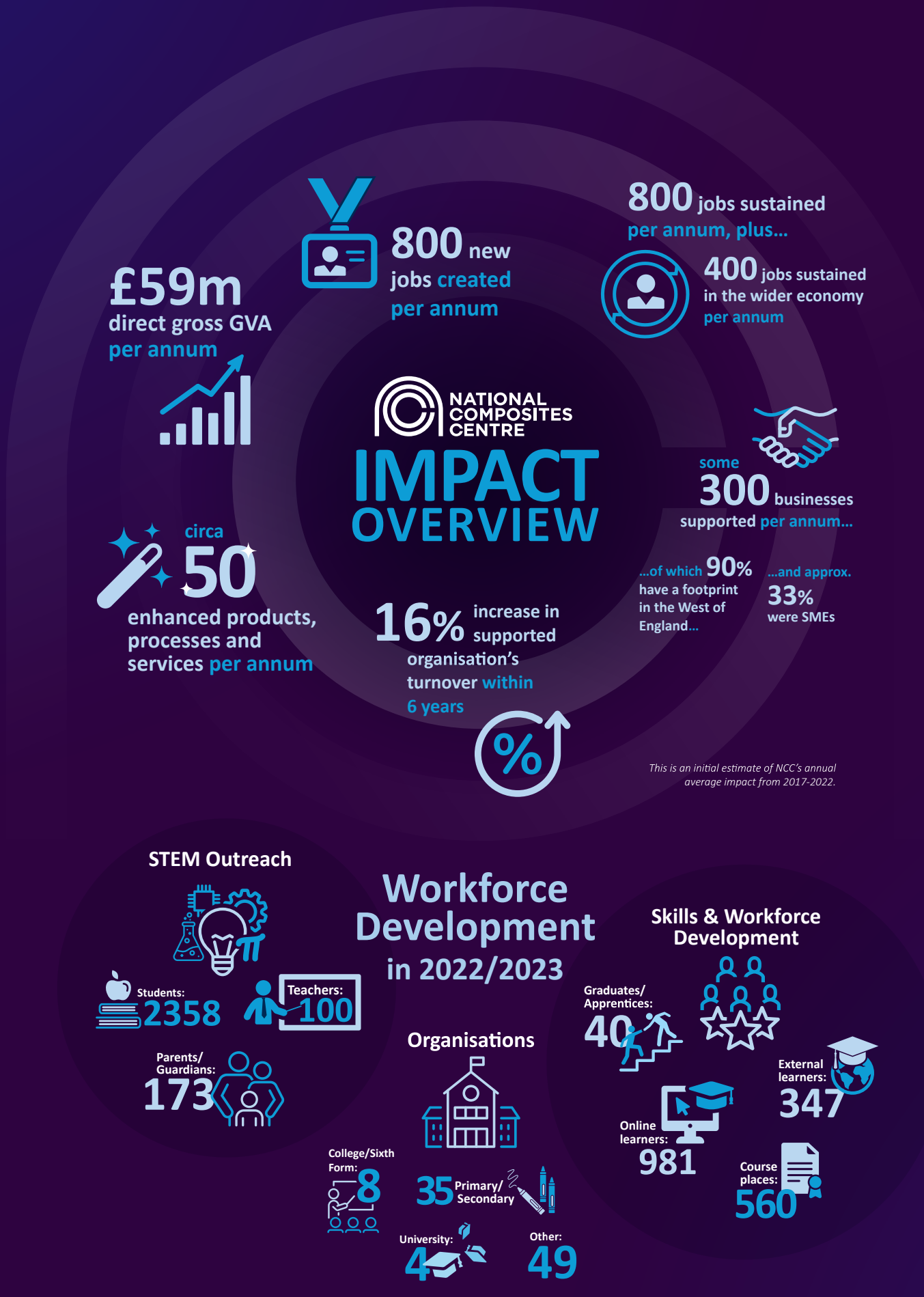
CASE STUDY

The National Composites Centre – Leadership in industrial transformation, underpinned by cutting-edge materials research

Part of the UK's Catapult network, the National Composites Centre is a key part of the country's high-value manufacturing sector. As an independent, open-access technology centre it is delivering world-class innovation in advanced materials, manufacturing and engineering. The NCC operates nationally with a large footprint in Bristol and Bath, which is home to 450 employees. The NCC supports approximately 300 companies every year. This network facilitates economic growth in sectors like defence, aerospace, and renewables, creating an average of 800 jobs per year.

The NCC is working to establish a presence in and between major innovation clusters, where it collaborates with partners such as the Royce Institute to develop advanced materials. In Manchester, the NCC is forging an enduring connection with Bristol – Bath, creating a connected corridor for composites innovation, with a particular emphasis on developing the UK's supply chain for innovative high-performance fibres, and circularity solutions for repurposing materials. Additionally, it has connections to regions like London and Strathclyde through various national programmes, aimed at the industrialisation of critical sectors such as offshore wind.

The NCC is an example of how effective leadership across sectors can support the growth of innovation companies and clusters. Andy Burnham, the Mayor of Greater Manchester, has emphasised advanced manufacturing as a key growth priority, including it in his mayoral manifesto. This political focus has driven support for programmes such as the DSIT funded Innovation Accelerator, which have boosted innovation in materials innovation in Manchester. Moreover, academic leadership, particularly from the University of Bristol, of which the NCC is a wholly owned subsidiary, plays a crucial role. The connection to academia allows the NCC to leverage the strengths of both industrial partners and academic institutions to advance cutting-edge technologies, facilitating R&D collaboration across the UK.



National Composites Centre - UK Impact
(Reproduced with permission from the NCC)

Our impact

The National Composites Centre (NCC) strives to support people and businesses to be more productive and therefore to be more competitive, locally, nationally and internationally.

The NCC helps businesses to grow and also helps people to gain more appropriate skills to take up job opportunities in these growing businesses.

It does this through:

- Investing in differentiated partnerships;
- De-risking innovation and investing in capability development;
- Providing access to expertise, equipment, as well as research and development space; and
- Connecting innovators to researchers and industrial partners.

Initial economic assessments suggest that over the last five years this has delivered:

£59m of direct gross value add (GVA) per annum through the annual generation of **50** enhanced products, processes, and services.[1] **£40m** GVA per annum being realised in the West of England region.[2]

800 jobs per annum created and sustained through the generated GVA. With a further **800 jobs** being sustained in the supply chain, and **400** in the wider economy.

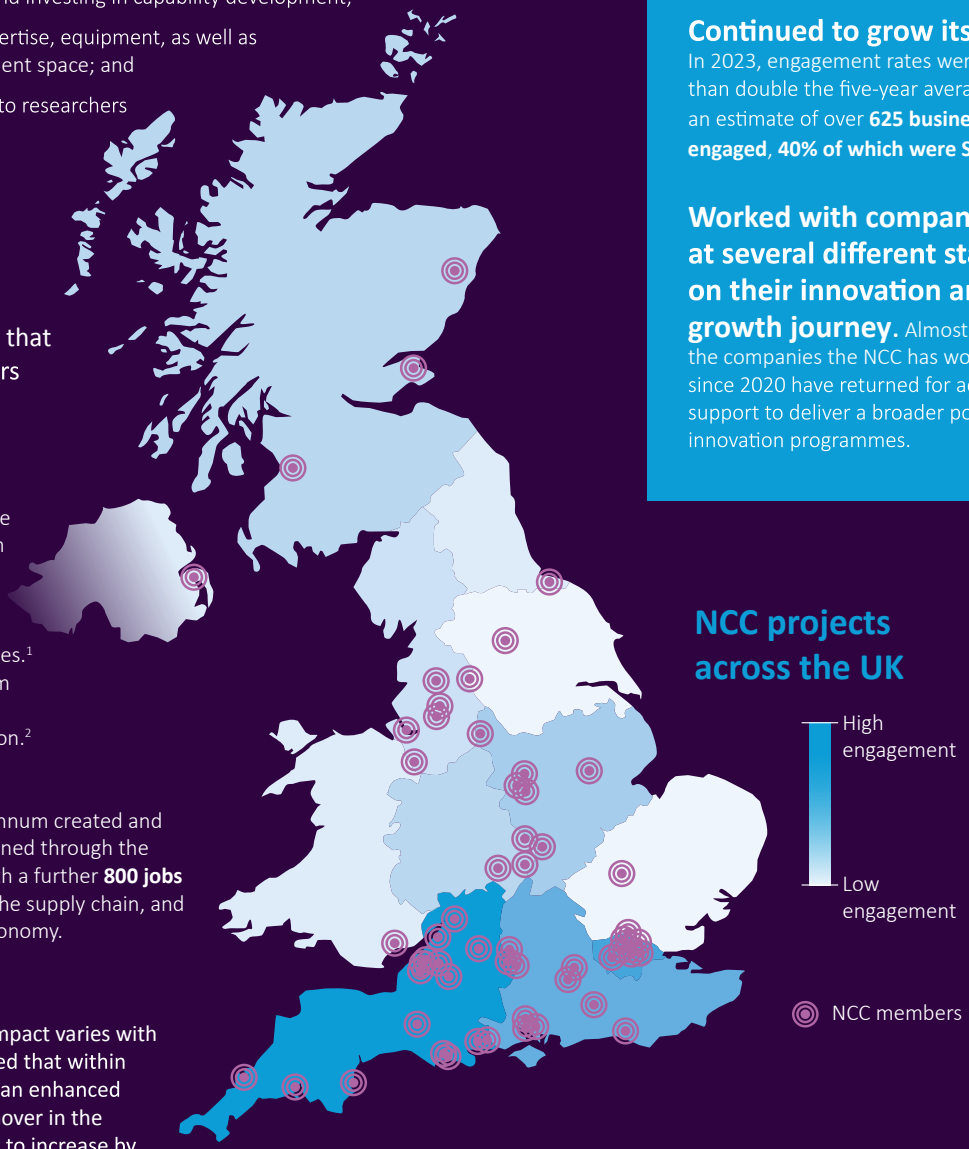
Although commercial impact varies with every firm, it is estimated that within six years of investing in an enhanced product or service, turnover in the beneficiary firm is likely to increase by **at least 16%.**[3]

In terms of what this equates to in practice, on an estimated annual average the NCC has:

Supported some 300 businesses annually over the last five years, **90% of which had a footprint in the West of England**, and around **33% being SMEs**;

Continued to grow its reach. In 2023, engagement rates were more than double the five-year average, with an estimate of over **625 businesses engaged**, **40% of which were SMEs**; and

Worked with companies at several different stages on their innovation and growth journey. Almost half of the companies the NCC has worked with since 2020 have returned for additional support to deliver a broader portfolio of innovation programmes.



[1] Scottish Enterprise Research in the impact of innovation on enterprises
[2] Based on an estimate that 70% of impact was retained in region.
[3] Innovate UK commissioned report by Enterprise Research Centre and Innovation Caucus based on a survey of 300 SME businesses.

National Composites Centre - UK Impact (Reproduced with permission from the NCC)

FINDING 5:
CONNECTED CULTURES

High-growth clusters exhibit a 'culture of innovation' which companies highlight as a key driver of investment, new ideas and an important factor in recruiting and retaining staff.

A specific aspect of this culture that companies highlighted as driving connected growth is the ability to connect with and engage local networks. Conversely, investors raised an inability to make the right connections and draw on entrepreneurial expertise in some areas as a greater barrier to the growth of smaller firms than access to capital.

Partly this connection comes about through leadership, as discussed above. However, companies raised a number of other factors that can promote connections that generate growth. Infrastructure, including incubation hubs and science parks, can provide the 'water cooler' moments that spur innovation. This kind of startup and spinout space can help areas to develop the necessary 'critical mass' of firms to become sustainable over the longer-term, and the presence of a large number of firms in a sector can give prospective employees the confidence to move to an area with a smaller firm, with the confidence that the local labour market for their role will remain healthy even if the firm itself does not.

Networking organisations were also highlighted as an important feature of innovative cultures. Networks of business, academic institutions and research organisations help to make connections that lead to growth and make a place feel vibrant and accessible. Networks can also play a more active role in promoting connected growth, leveraging their knowledge of their own economies to reveal a bigger picture - the Growing Together Alliance's work is one example of this. Organisations like TechSpark in Bristol and Manchester Digital act as connectors across regions for specific sectors.

There is a particularly significant and growing link between Cambridge and Manchester with an initiative led by Innovate Cambridge and Sister Manchester (previously ID Manchester) to deepen the partnership across various levels including innovation and governance. The SETSquared partnership between universities of Bath, Bristol, Cardiff, Exeter, Southampton and Surrey was raised by one interviewee as a prominent and effective example of combining academic connections with business incubation. Sharing expertise and supporting firms to scale was also raised as a key motivator for the Cambridge Angels investor network to get involved in economies outside of their current base.

> **"A RISING TIDE LIFTS ALL BOATS, THERE'S SOMETHING IN IT FOR ALL OF US AND WE ARE HAPPY TO COLLABORATE RATHER THAN COMPETE."**
>
> Interviewee (Advanced Manufacturing)

A region's quality of life can be a major draw for companies and a way of selling a location decision to prospective investors and employees. The specific place offer of a city, and how well this is expressed by its 'brand', is crucial. Companies refer to certain places, like Bristol and Cambridge as 'sticky' – easy to attract staff to and difficult to lure them away from due to quality of life benefits like access to green space and vibrant communities. Some companies referred specifically to the importance of providing a good experience to early career professionals, who might have moved to a city for study but have not yet put down roots there. Good placemaking should therefore be viewed as an essential component of local economic growth strategies.

These factors point to the fact that location decision and shared growth are not always driven by strictly commercial or even 'rational' factors. Numerous companies and investors raised personal connections, such as having grown up in a place or having family still living there, as a core driver of their interest in growing their presence or supporting other companies there. For example, one angel investor is aiming to set up an effective satellite of Cambridge Angels in South Yorkshire through personal connections and affiliation to Sheffield University. The importance of personal connection, relationships and ideas about culture associated with certain places reinforces the importance of connections between networks that best understand local and regional economies.

However, companies raised concerns that the rapid economic growth of innovation clusters can put downward pressure on quality of life in an area. Most notably, high demand and high salaries associated with jobs in innovative sectors can lead to ballooning house prices, making it harder to attract and retain talent and harming growth in the long term.

> **"IN A WAY, WE'VE BEEN A VICTIM OF OUR OWN SUCCESS."**
>
> Interviewee (Professional Services)

> **"IF YOU WANT TO GROW A SITE, YOUR PEOPLE NEED TO BE ABLE TO AFFORD TO LIVE THERE."**
>
> Interviewee (Technology)

Recommendations

Business leaders and investors describe 'place' – both the quality of life and the existing networks that a cluster has – as essential drivers of their decision making. Government must consider affordability, local networks and the more social drivers of decision-making in its approach to driving economic growth across the country.

14. Encourage collaborative networks that span innovation clusters that build a shared ecosystem, and in turn influence business location and investment decision-making:

- DBT should promote, as part of the implementation of the Industrial Strategy, cross-regional engagement between business, academic and public sector leaders.
- The Growing Together Alliance will use its cross-regional influence to direct support established investor networks to engage with emerging innovation clusters to support their growth ambitions.

15. Proactively cultivate good quality of life in innovation clusters to support recruitment and retention of people and mitigate negative externalities of innovation-driven growth:

- The Government's Ten-Year Infrastructure Plan should consider the role of social and cultural infrastructure in placemaking and the specific needs of innovation clusters as they grow.
- As part of the reintroduction of strategic spatial planning (see above), local leaders should consider how housing need can best be distributed across their economic geography, working closely with other local authorities, and with a high level of ambition for affordability.

CASE STUDY

TLT LLP – Professional services that enable, protect and grow UK innovation

TLT LLP is a national law firm founded in 2000 by a merger of two Bristol-based firms. Providing legal and consultancy services across a wide range of areas including technology, cybersecurity, AI, intellectual property, finance and infrastructure, TLT's growth has aligned with regional demand with a focus on areas with dynamic innovation ecosystems and strong academic institutions.

TLT combines national expertise with local knowledge ensuring businesses receive advice that is both strategic and relevant to the regional landscape.

The firm has expanded from its Bristol base to now have offices in Belfast, Birmingham, Edinburgh, Glasgow, Manchester and London. TLT is an example of the mutually supportive relationship between innovation companies and professional services, where world-class legal and consultancy services develop in response to the needs created by innovation breakthroughs, increasing its own footprint while at the same time supporting the growth of innovation companies.

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GrowingTogether
ALLIANCE


CAMBRIDGE
AHEAD


North West Business
Leadership Team


Business
South


Business
West


BUSINESS
LDN


THE
NORTHERN
POWERHOUSE
PARTNERSHIP