

Planned response to Muscatelli Report

- This paper invites the Board to note the publication of *Driving Innovation in Scotland – a national mission (The Muscatelli Report)*, to comment on the report's recommendations as appropriate, and to note the intention of the executive to work with other stakeholders to respond to the recommendations and to play a leadership role wherever appropriate.

Recommendation

- Note:
 - The detailed contents and recommendations of the Muscatelli Report, commenting where appropriate.
 - The intention of the executive to respond to the recommendations relevant to SFC, in partnership where appropriate and prioritising as needed.
 - The intention of the executive to ensure SFC leads on the response to recommendations where our leadership would be appropriate.
 - that the executive plans to present a view on the relationship between the two reports, in the university and college sectors, once the report on the economic role of colleges by Audrey Cumberford and Dr Paul Little is available.

Financial implications

- There are no immediate financial implications arising from this paper, though the Board is asked to note that supporting a comprehensive engagement with the recommendations of this Report, as intended, will have staff resource implications.

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Purpose

1. This paper invites the Board to note the publication of *Driving Innovation in Scotland – a national mission (The Muscatelli Report)*, to comment on the report's recommendations as appropriate, and to note the intention of the executive to work with other stakeholders to respond to the recommendations and to play a leadership role wherever appropriate.

Background

2. Professor Sir Anton Muscatelli was commissioned by the Cabinet Secretary for Finance, Economy and Fair Work to prepare a report on how Scotland's institutions can improve their engagement with industry and boost their contribution to economic growth. In the press release announcing this work (March 2019) Mr Mackay said:

*"Scottish Universities are engines of knowledge and growth and it is important we ensure they fulfil their significant economic. I have therefore asked one of Scotland's foremost economists, Professor Sir Anton Muscatelli, to work in partnership with the Strategic Board, the Scottish Funding Council and the higher education sector on how universities can further achieve these aims building on the existing evidence and good practice in this area."*¹
3. Professor Muscatelli launched his report *Driving Innovation in Scotland – a national mission (Muscatelli Report)*², at the Royal Society of Edinburgh, on 27 November 2019.
4. The Council board had the opportunity to hear Professor Muscatelli speak on his report on the evening of 5 December 2019.
5. In August 2019, Mr Mackay also commissioned Audrey Cumberford (Principal and Chief Executive of Edinburgh College), and Dr Paul Little (Principal and Chief Executive Officer of Glasgow City College) to undertake a review of the economic impact of Scotland's colleges³. This report is expected to be published in February 2020.

¹ https://www.gla.ac.uk/news/archiveofnews/2019/march/headline_638902_en.html

² https://www.gla.ac.uk/media/Media_700300_smx.pdf

³ <https://www.cityofglasgowcollege.ac.uk/news-events/news/city-glasgow-college-principal-review-impact-college-sector> and <http://www.edinburghcollege.ac.uk/newsandevents/college-principal-undertaking-review-into-impact-of-scotlands-colleges/>

6. The Scottish Government has publically welcomed Professor Muscatelli's report and is currently considering how it will respond to its recommendations. Whilst the report was commissioned by the Cabinet Secretary for Finance, Economy and Fair Work, the report's recommendations straddle various policy areas and Ministerial portfolios. It is likely therefore that Scottish Government will need to convene an internal group to coordinate this. We should expect this to take some time. It is possible that the Scottish Government will decide to develop its response alongside the report on colleges also commissioned by Mr Mackay.
7. This paper gives the Board a summary of the opportunities for SFC presented by Professor Muscatelli's report and clusters both the recommendations and the top-level response the SFC executive proposes to take into six groups.
8. Most of the report's recommendations look to multiple stakeholders (agencies, Universities Scotland, Government) to respond and SFC will play its role in partnership. Wherever possible, SFC will propose to lead and co-ordinate actions, or the formulation of advice.

The Muscatelli Report and recommendations

9. Professor Muscatelli made 22 recommendations supported by extensive commentary and analysis. Of the recommendations, 15 are aimed at, or refer explicitly to, SFC, whether in the recommendation or in the supporting explanations.
10. The report is focussed on institutions' engagement with industry and their contribution to economic growth. Professor Muscatelli does not focus on the provision of graduates and skilled workers by HEIs. He acknowledges its importance but cites the work being done under the Strategic Board auspices as being where that is being examined.
11. The report is intended to reflect the views of Professor Muscatelli as an expert in the university sector, and the views it contains are his and not those of the University of Glasgow or of the wider sector.
12. The report's recommendations are grouped under six thematic headings.

A truly national mission: turning Scottish Government targets into a collective ambition for Scotland. Scottish Government and its agencies to act as one in this endeavour

13. SFC is already working closely with other agencies on innovation, through the Innovation Centre programme, Interface, entrepreneurship and more. We will develop the partnership further as we collectively stimulate the growth of our low-carbon economy and will learn from Professor Muscatelli's report in doing so. Professor Muscatelli recommends a greater effort in leveraging UKRI

innovation funds and the setting of targets to incentivise this. This is a positive recommendation though Scotland's particular weakness is business engagement with InnovateUK and so we will consider, with our partners, whether it would be effective to set separate targets for business-led and institution (or IC) -led activities. A mechanism to co-ordinate ISCF applications⁴ has been created though it is in its infancy.

The strongest foundations: focussing on the tools (including reserved areas) required to take both positive action and to help understand where there are currently areas for improvement

14. Here Professor Muscatelli is concerned about the availability of investment by private firms and the (reserved) immigration and tax conditions that allow that investment to have maximum effect. SFC is not strongly involved in this space but we have the opportunity to link our collective investments from the public sector to private funds more effectively, through the Innovation Centre programme for example. We also see potential for close partnership with the Scottish National Investment Bank (SNIB) and potential to help institutions to promote the investment opportunities of spin-out businesses.

Clarity of purpose: setting a clear innovation strategy. Aligning funding streams

15. The setting of a national innovation strategy, building on ScotlandCanDo, is a major multi-agency challenge in the Report. To inform this, our experience of working across agencies should certainly be developed further with alignment extended beyond the Innovation Centres where possible. Professor Muscatelli develops the value from research investment and encourages further recognition of the value of research excellence in place-making. This chimes well with our understanding of the regional economic role of institutions and Professor Muscatelli's work will support us as SFC facilitates such a role as appropriate.

Understanding the value of public R&D: understanding the 'value for money' of the current quantum of spending on institution-based R&D and potential rate of return

16. This set of recommendations is intimately bound up with questions central to the SFC's mission: of the sustainability of excellent research in Scotland, the justification for Scottish public investment in that research and the effectiveness of our efforts to translate that excellence into an economic and social return. We need to examine this in 2020 for two further reasons: preparing for REF2021 outcomes in our REG funding and to support the Enterprise and Skills Strategic Board in its study of the impact of investment in innovation. Professor Muscatelli's recommendation of international

⁴ UK Industrial Strategy Challenge Fund

benchmarking of our public R&D spending is welcomed by the executive and we look forward to sharing that aggregated data with the Board at an early opportunity.

Incentivising institutions and industry: how to optimise the impact of a given amount of research and innovation funding through grants such as REG and UIF

17. Closely following on from the previous theme, Professor Muscatelli suggests SFC should examine and report on the long-term sustainability of research in Scotland. He encourages SFC to consider if maximum impact and sustainability is being achieved from our current funding distribution and advises that we may need to consider an increased concentration of resource. That is to say, maintain quality whilst potentially reducing the volume of research (and innovation) support. This recommendation will be looked at in the broader context of SFC's consideration of the imminent Scottish and UK budget settlements and subsequently in the context of REG planning for 2022 onwards. The UK position is hugely important as UKRI is a major source of funding and the UKRI and non-UKRI research funding position is fast evolving. SFC's executive agrees with Professor Muscatelli that facilitating a strong relationship with UKRI is an important role for us.

Institutions and commercialisation activities: recognise that there is room for improvement in institutional commercialisation activities

18. The long-running debate on the obstacles to commercialisation, whether arising from institutional IP strategy or the rigid nature of research careers, receives a welcome spotlight in the Report. The executive is examining the future drivers for, and incentivising power of, SFC's University Innovation Fund and Professor Muscatelli's report gives a timely input to the questions we might answer with that review. The Scottish Government, supported by all the core agencies, is considering inward investment support and the role of institutions as attractants and anchors is being foregrounded strongly by the SFC executive in that forum.

Research and Knowledge Exchange Committee (RKEC)

19. At its meeting on 19 December 2019, RKEC discussed the Report. The advice it offered to the Board included:
 - As we, correctly, give increasing focus to the impact of institutions in the Scottish economy, we must be aware that our institutions are global actors and rely for their sustainability on being so.
 - There can be tensions between activities aimed at short-term economic impact and those which invest in the underpinnings of future economic payback; research into complex and challenging problems can take decades.

- A successful national mission, as recommended by Professor Muscatelli, will require industry based in Scotland to itself invest in R&D, increasing ambition, equity and financial return.
- There is an obvious link between some of Professor Muscatelli's recommendations and the examination of the impact of public sector investment in innovation being carried out by the Enterprise and Skills Strategic Board.

Risk assessment

20. Individual responses by SFC and partners to the recommendations in Professor Muscatelli's report carry a variety of risks better quantified and mitigated at the level of individual recommendations.

Equality and diversity assessment

21. It is not appropriate at this stage to conduct an equality and diversity assessment. Individual activities in response individual recommendations will require assessment, particularly where policy changes may have broad impacts on the sector.

Recommendations

22. The Council is invited to note:
- the detailed contents and recommendations of the Muscatelli Report, commenting where appropriate;
 - the intention of the executive to respond to the recommendations relevant to SFC, in partnership where appropriate and prioritising as needed;
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Financial implications

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Publication

24. This paper will be published on the Council website after the meeting.

Further information

25. Contact: Stuart Fancey, Director of Research and Innovation, tel: 0131 313 6559
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