

## Finding effective innovation policies for local growth

Research evidence urges caution in using local-level innovation policy to drive local economic growth.

### Policy implications

- Policymakers should be cautious in using local-level innovation policy as a tool to drive local economic growth. Existing policy tools are effective at raising R&D activity, but we know little about how this feeds through to greater innovation, better firm performance or longer term economic growth at the local level.
- Many broader economic benefits are likely to 'spill over' beyond the local area where a policy is implemented. Such spillovers reduce the economic benefits to individual areas, strengthening the case for national policy.
- Local R&D support programmes could result in inefficiently high levels of support, if firms are able to extract overly generous support from local authorities attempting to 'outbid' each other to attract business.
- Robust evaluation is needed on how different forms of R&D support perform against each other (grants, loans and subsidies compared to tax credits), and against other aspects of innovation policy.
- Programme spend and operational cost data is rarely available to evaluators. This makes it hard to assess the cost-effectiveness of public R&D grants and subsidy interventions. Policymakers should

routinely make cost data available to evaluators.

- Policymakers should consider how to implement policies in ways that makes evaluation easier – for example, through competitive application processes, or by staggering rollout over time and across locations.

### About the research

Successful innovation is an integral part of a prosperous UK economy. The ability of firms to innovate plays an important role in sustaining growth and competitiveness, in turn financially benefitting the local and regional community. Ensuring that innovation policies are effective and achieve their aims is crucial to maintain a viable innovation economy.

The What Works Centre for Local Economic Growth has carried out a systematic review of around 1,700 studies from the UK and other OECD countries evaluating the impact of innovation policies. The review was split into two parts focusing on the two policy areas with most evidence of impact: R&D grants, loans, and subsidies; and R&D tax credits.

The findings suggest caution on the role that localised innovation policy should play in driving local economic growth. Policy initiatives are shown to increase R&D activity, but there is not much evidence on how much this in turn affects innovation, firm performance or economic growth. Innovation impacts may also spill over across local boundaries, strengthening the case for national co-ordination.

## Key findings

- Grants, loans and subsidies are more likely to improve outcomes for small to medium-size companies than for larger ones.
- Grants, loans and subsidies can increase R&D expenditure and positively impact productivity, employment or firm performance (profit, sales or turnover). Some evidence suggests that support is more likely to increase employment than productivity.
- Grants programmes that emphasise private-public collaboration also seem effective at raising R&D activity, compared to programmes that just support private firms.
- According to the limited evidence from comparing the impact of R&D grants/loans/subsidies with the impact of tax credits, a policy mix of both approaches may be beneficial.
- Grants, loans and subsidies that target particular production sectors perform slightly worse in terms of increasing R&D expenditure and innovation compared to those that are 'sector neutral'.
- R&D tax credits have a relatively good success rate in raising R&D spending, particularly for smaller and younger firms.
- Although tax credits and grants/loans/subsidies are shown to increase R&D activity, much less is known about how much this feeds through to innovation, firm performance or long-term economic growth.

**Existing policy tools are effective at raising R&D activity, but we know little about how this feeds through to greater innovation, firm performance or longer term economic growth at the local level.**

### BRIEF DESCRIPTION

*The Evidence Review on Innovation*, published by the What Works Centre for Local Economic Growth, presents findings from around 1,700 studies from the UK and other OECD countries looking at two areas of innovation policy – R&D grants, loans and subsidies; and R&D tax credits. In both areas, the evaluations considered three broad outcomes: R&D expenditure, innovation and economic outcomes.

Web: [www.whatworksgrowth.org/policy-reviews/innovation/](http://www.whatworksgrowth.org/policy-reviews/innovation/)

### FURTHER INFORMATION

The What Works Centre for Local Economic Growth (WWG) analyses which policies are most effective in supporting and increasing local economic growth. The centre is part of the What Works Network, and funded by the ESRC, the Department for Business, Energy and Industrial Strategy, and the Department for Communities and Local Government.

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