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Multilevel Governance and Place-based Innovation

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About the UCI Expert Insights Series on University Knowledge Exchange and Regional Economic Growth

There is significant policy interest in the UK in strengthening local economies to fulfil their economic potential and address long-standing spatial disparities. Universities have a significant role to play in helping to deliver policy ambitions in this area, including through their knowledge exchange (KE) activities.

Funders of KE, including Research England, face increasing pressure to develop approaches to enable universities, through KE, to strengthen contributions to regional economic growth. However, progress is hampered by the lack of fit-for-purpose data and metrics capturing universities' potential to contribute to regional growth outcomes. For Research England – which allocates KE funding to universities through both formula-driven allocations and competitions – this constrains their ability to:

- Allocate funding to enable universities to contribute to regional growth through KE
- Track and evaluate the performance of such funding programmes
- Support learning and improvement by universities around how to deliver effective and impactful regional economic growth initiatives

To address this issue, Research England and the Policy Evidence Unit for University Commercialisation and Innovation (UCI) at the University of Cambridge, are working closely to identify and progress opportunities for better data and metrics in this area.

To guide this work, leading academics with expertise on regional economic growth, universities, and KE, were commissioned to produce a series of *Expert Insights Papers* examining where progress could be made. The papers synthesise the latest insights from research and practice, and offer thoughts on where better data and metrics could be developed to meet funder needs

The topics were shaped by a policy evidence roundtable in September 2024, which brought together national funders, policymakers, and academic and sector experts from across the UK to identify key gaps. Key topics include:

- Approaches, opportunities and challenges to fostering regional economic growth (including theoretical and empirical insights, and latest international practices).
- Opportunities and challenges for where and how universities can contribute to regional economic growth through KE.
- Types of regions or regional contexts and how these shape the role universities should play in enabling economic growth through KE.
- University KE pathways for delivering impacts on regional growth
- The types / scale of capabilities, resources and alignment needed within universities to deliver KE aimed at supporting regional growth, and the ability of universities to adapt and reconfigure to deliver.

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1 Introduction: Institutions and Development

Two of the most important themes in development studies over the past quarter century are the “institutional turn” and the advent of a “spatial sensibility”. On the institutional front, theorists of very different persuasions have come to accept that, wherever they stand on the state versus market spectrum, the quality of institutions in a place is one of the primary determinants of the social and economic fortunes of that place. As regards the advent of a spatial sensibility, time was when many economists seemed to think that economic activity occurred on the head of a pin, as though the alleged “death of distance” had rendered geography redundant. But scholars and policymakers have come to recognise that a place-based policy approach rather than a place-blind approach is better able to address one of the core problems of less developed areas, which is “the persistent under-utilisation of potential” (Barca, 2009; Barca et al, 2012).

Research has furnished a number of important insights into the dynamics of innovation and development and many of these insights underline the growing significance of *place-based* factors and *governance-related* factors, highlighting how these factors have the potential to make or break the developmental prospects of countries, regions and cities. These insights include the following:

- There is a strong positive correlation between the efficacy and integrity of a country’s institutions and its economic development performance (Rodrik, 2004; Acemoglu and Robinson, 2012).
- Within the institutional mix, the quality of government is arguably the single most important factor for creating an environment that fosters rather than frustrates development (Charron et al, 2013).
- Innovation is a place-dependent as well as a path-dependent process and regional innovation policies need to include governance reforms to ensure that innovation is not stymied by inefficient or corrupt local elites (Rodriguez-Pose and Di Cataldo, 2015).
- Multilevel governance systems need to strike a judicious balance between centralisation, for the sake of territorial solidarity and equity, and decentralisation, to accommodate subsidiarity and diversity (Morgan, 2018).
- Decentralisation is neither inherently good nor bad, rather it is a question of the conditions under which decentralisation can promote local democracy, efficient public service delivery and regional development (OECD, 2019).
- While policies and governance structures can help or hinder development, depending on their efficacy and integrity, it is the quality of inter-organisational relationships that is most important (OECD, 2018).

Many of these insights are pertinent to the UK because, in the post-Brexit era, it is struggling to deal with the institutional landscape of a new multilevel polity. At the supra-national UK level, central government is assuming some of the functions and responsibilities that formerly lay with the European Commission in Brussels, and this is especially the case with respect to regional development policy. At the subnational level, the most significant institutional change is the rise of new city-regions, following the creation of Combined Authorities of various sorts. New tensions have emerged in this institutional landscape and these tensions have the potential to frustrate policies for knowledge exchange, innovation and regional development unless they are acknowledged and resolved. In this paper we explore these institutional challenges in two ways: (a) by drawing on theoretical insights from the multilevel and experimental governance literatures and (b) by distilling key insights from our empirical research projects on innovation and regional development in and beyond the UK.

2 Directionality and Subsidiarity: The Challenges of Vertical and Horizontal Governance

One of the key political challenges for multilevel polities is how to calibrate directionality and subsidiarity in contexts that are complex, uncertain and non-linear – situations in which policy cannot be entirely planned from above and passively implemented from below (Grillitsch et al, 2025).

Directionality is important because all actors need to be assured of the direction of travel if policy is to be effective and consequential. Clear and consistent directionality is therefore required at all levels of the multilevel polity regarding the broad contours of policy. One way to provide it is to ensure that new priorities are strongly aligned with widely accepted social and environmental challenges, such as the SDGs for example. However, subsidiarity is equally important because subnational agents need to be empowered to be actively involved in the design and delivery of policies that concern them. But there's a political paradox here because, while the subnational level is the most important for policy delivery and implementation, it has the least power and status in multilevel governance systems

From the experimental governance perspective, conventional models of the multilevel polity are defective in two ways. First, in the conventional *top-down misconception* the lower-level agents are charged with passively implementing the policy designs of their higher-level principals. But this view wrongly supposes that the principals have sufficient knowledge of what to do and how to do it because such foresight is impossible in an age of uncertainty. To be successful, the experimental governance literature argues that the process of local policy implementation must be a creative, problem-solving activity, not the passive execution of policy designs from above. But, second, the conventional *bottom-up misconception* is to think that devolving power is sufficient, when it manifestly is not, because local actors have to have sufficient local capacity to learn what has worked where and why and such knowledge can only come from learning from other domains beyond their localities, a learning process that can be fostered or frustrated by the policies of national and supra-national levels in the multilevel polity (Morgan and Sabel, 2019).

A judicious combination of directionality and subsidiarity should be able to resolve these twin misconceptions. For example, Wanzenbock and Frenken have shown how to give practical effect to the subsidiarity principle in the multilevel EU innovation policy space. "In a multilevel framework, broad societal goals can be set to give direction at a higher or transnational level, while local units receive autonomy to translate these goals into own policies, and to develop solutions bottom up in their own way. Such an approach would resonate with the idea of learning from diversity, as it allows to benefit from different combinations of transnational and regional factors in heterogeneous innovation settings" (Wanzenbock and Frenken, 2020:56).

The above example assumes that nation-states have devolved sufficient power and autonomy to subnational actors – be they cities, regions or city-regions – to enable them to conduct local experiments to align national priorities to local circumstances. But in countries characterised by a dominant centre – and the UK can be included here on account of its centralised fiscal system – it may be difficult if not impossible for subnational actors to act on their local knowledge (Marques and Morgan, 2021; Breach et al, 2023; McCann, 2023).

Vertical governance in the UK has been exacerbated by Brexit, especially by the United Kingdom Internal Market Act (UKIMA), which represents the lowest point of inter-governmental relations in the history of devolution in the UK. Although the Welsh and Scottish Parliaments refused to give their legislative consent to the Internal Market Bill, this did not prevent the UK government from proceeding with the bill. The UKIMA came into effect on 18 December 2020 and among its provisions are new rules on how legislatures and governments in the UK can legislate to regulate goods and services in future through the mutual recognition principle and provisions to give UK Ministers new spending powers in devolved areas.

The *mutual recognition principle* for goods means that goods made, or imported into, one part of the United Kingdom that comply with relevant legislative requirements in that part, can be sold in the other parts of the United Kingdom, without having to comply with any relevant legislative requirements in those other parts. This principle in effect means that the Devolved Administrations can no longer regulate the supply of goods in the Celtic nations if they are deemed to comply with regulations in England, thereby neutering their policies in all the devolved areas. Section 50 of the Act gives the UK Government wide powers to provide financial assistance to any person for, or in connection with, a wide range of specified purposes. These purposes include promoting economic development, providing infrastructure, supporting cultural activities and events, and supporting educational and training activities and exchanges. The financial assistance powers extend to funding activities in policy areas devolved to the Celtic nations. It was under these financial powers that UKG launched the Community Renewal Fund, the Levelling Up Fund and the Shared Prosperity Fund, all of which were place-based development policies that were ostensibly a devolved competence. From a subsidiarity standpoint, the UKIMA signalled "the death of devolution" in the UK (Morgan and Wyn Jones, 2023).

Horizontal governance is also under renewed scrutiny at two levels in the UK. Firstly, central government is seeking to develop a more holistic mission-led industrial strategy to overcome what it claims are the central failings of previous strategies, which were "held back by weak coordination and delivery" (UKG, 2024:51). Second, subnational authorities in the UK are assuming more responsibilities for innovation and place-based development in their respective territories and this entails integrated policy repertoires if they are to deliver more inclusive forms of innovation and development.

Governments in OECD countries are experimenting with new governance mechanisms to promote cross-government or whole-of-government collaboration with a view to more integrated and holistic policy design and delivery. These cross-cutting levels exhibit different degrees of horizontal integration, and the integrated governance literature suggests the more wide-ranging and intensive the mode of cross-cutting working, the greater its potential to disrupt existing systems and the greater the resources it will demand. In Table 1 below researchers have also identified a continuum running from co-operation through to full blown holistic government (Connell et al, 2016).

Table 1: Modalities Of Cross-Government Working

Mode	**Co-operation**	**Coordination**	**Collaboration**	**Integration**	**Holistic government**
Level of challenge to the status quo	Low				High
Characteristics	Departments take account of each other's goals and share information. Linkages are temporary, informal, resource-light, and usually at a junior level.	Departments contribute to agreed, specific, programme of actions which align their activities in order to achieve shared goals. Strongly instrumental and task-oriented.	Departments see themselves as interdependent and work towards system change. Requires new terms of engagement based on shared goals, joint dialogue, and trust.	Departments are reconfigured. Embeds new systems and policy instruments which are not dependent on key individuals to sustain them.	Government starts with a clear and mutually reinforcing set of objectives framed in terms of outcomes and then works back from there to identify instruments to achieve those outcomes.

The UK government's "Mission Boards" are the latest example of efforts to create more cross-government horizontal collaboration. Although these boards are critical to the success of the mission-led approach to policy design and delivery, they face formidable institutional challenges because they run counter to the silo-based hierarchical culture of Whitehall departments. As if to illustrate the point, the 2025 Spending Review revealed very little evidence of cross-departmental working around missions as there were no joint budgets with shared outcomes, a litmus test of horizontal policy integration within central government. This was widely interpreted as "a missed opportunity to incentivise the kind of collaboration that has limited the effectiveness of previous spending reviews" (Pope et al, 2025).

The recently published *Modern Industrial Strategy* is equally challenging, not least because it "represents a daunting delivery challenge, requiring quite unprecedented levels of cross-departmental working" (Wilkes, 2025).

OECD studies of multi-level governance reforms have highlighted the inter-dependence between the vertical and horizontal dimensions of governance systems. One of the key points to emerge from these reviews is that fragmented governance at the national level creates serious problems at the subnational level. We conclude this section by looking at the problematical interplay of vertical and horizontal governance in the post-Brexit era in Wales.

The governance of devolution deals varies from place to place. Whereas the deals are *bilateral arrangements* in England – consisting of a two-way relationship between UKG and the Combined Authority - they are *trilateral arrangements* in the devolved nations of Scotland, Wales and Northern Ireland because the additional involvement of the Devolved Administrations renders it a more complicated three-way relationship (Waite and Morgan, 2018).

The post-Brexit era has spawned new inter-governmental tensions at two distinct levels of the multilevel polity in the UK: (a) between UKG and the Welsh Government and (b) between the Welsh Government and the recently created Combined Authorities in Wales. The conflicts between London and Cardiff came to a head over the refusal of the Conservative governments to devolve the powers over regional development that were re-patriated from Brussels following Brexit, conflicts that were exacerbated by the passage of the UKIMA legislation that signalled a new centralism in UK politics. What further aggravated these tensions was the fact that the governance of the Shared Prosperity Fund – the replacement for EU Structural Funds – circumvented the Welsh Government because UKG decided to deal directly with local authorities as in England.

In retrospect we can see that the contested governance of the SPF was fuelled by the clash of two different models of devolution:

- The WG reference point was the *national model* of devolution that has dominated the political debate since the Senedd was created in 1999, which refers to a process of devolving powers and functions *to* Wales;
- The UKG reference point was the emerging *subnational model* of devolution that involved devolving powers and responsibilities to four regions *within* Wales, one of which is the Cardiff Capital Region.

Appealing to the subnational model, the UKG preferred to deal directly with the subnational authorities, claiming that this arrangement represented 'an extension of the devolution process' (Morgan and Wyn Jones, 2023). In principle, the two models of devolution ought to be complementary but, in practice, their co-existence proved to be anything but seamless, not least because the centralist tactics of UKG entailed bypassing the institutions of the national model and privileging the local institutions of the subnational model.

These multilevel governance conflicts entailed much more than purely constitutional spats between different interpretations of devolution. Such conflicts are proving to be costly in regional development terms because, in contrast to EU Structural Funds, where multilevel partners from Brussels, London and Cardiff contributed to the funding pot, the Welsh Govt refused to commit a penny to the SPF on the grounds that it had played no part in the design of the programme. The conflicts also created a toxic climate between Cardiff and London, marking the lowest point in inter-governmental relations since the birth of devolution, bequeathing a low trust legacy that stymied the prospects for genuine knowledge exchange.

Vertical governance conflicts are also apparent between Welsh Government and Cardiff Capital Region, the largest of the four Combined Authorities in Wales. Our current project on *Inclusive Innovation in UK City-Regions* has revealed a problematical relationship that has its institutional origins in the failure to properly address the issue of who does what at which level in the regional development space. The OECD was commissioned to examine the problem and it concluded by saying: "friction between the Welsh Government and local authorities poses a challenge to the vertical collaboration required for regional development...The Welsh Government should carefully weigh its use of prescriptive directives and guidance, and promote experimentation to help the transition towards a more collaborative approach among the Welsh Government, local authorities and CJCs [Corporate Joint Committee]. This could, for example, start with listening-and-action sessions focused on how local authorities envision implementing new policy" (OECD, 2024:10).

Once again, these governance conflicts are not purely constitutional issues because they carry costs, in terms of time and resources. Currently, two of the most prominent conflicts revolve around the Investment Zone (IZ) for the CCR region. The primary conflict concerns the very purpose of the IZ, a UKG initiative for place-based development in different regions of the country. Welsh Government prefers to use the £160m IZ budget to reinforce existing economic strengths in the region's Compound Semiconductor Cluster, while the CCR sees the IZ as an opportunity to explore novel initiatives to extend the reach of the CS cluster in the region to extract greater value from its digital and data capabilities and critical mass in a new Innovation District. Far from being minor differences of opinion, these conflicts are examples of what the OECD found to be a weak collaborative culture among regional partners. But the conflict also illustrates a challenge in all regional innovation strategies, which is how to strike a judicious balance between continuity and novelty (Morgan et al, 2020).

The IZ has also triggered a secondary conflict over the retention of business rates in the region. CCR's peers in England, like the Mayoral Authority in Greater Manchester for example, are able to retain 100% of the increase in business rates in the region following a new development project, whereas in Wales the CCR is only allowed to retain 50% of the increase because Welsh Government has ruled that it needs the other 50% to fund "the pool" from which it supports projects in other parts of Wales. Such comparisons have persuaded CCR that the trilateral model of city-regionalism in Wales is becoming a handicap to its efforts to compete with its counterparts in England.

In both these examples of vertical governance tension – between WG and UKG on the one hand and between WG and CCR on the other – we can see institutional environments and inter-organisational networks which are not conducive to genuine knowledge exchange and this problem needs to be more widely acknowledged because it can be a serious barrier to the design and delivery of policies for innovation and regional development.

3 Place-based Innovation and The Triple/Quadruple Helix

These governance tensions provide the context for our recent work on how city regions have been mobilising to deliver innovation and regional economic growth. Our current project, *Inclusive Innovation in UK City-Regions,* assesses developments in Belfast, Cardiff, Glasgow and Manchester. It is too early to report findings from this project, but it develops work we undertook in 2023 which looked at *Regional Economic Growth through Innovation Policy and Business Engagement* in Cardiff, Glasgow and Manchester[1]. Taking a triple helix perspective, we interviewed representatives from higher education, local and national government, and business from across the three city regions. We wanted to explore the interaction between these stakeholders in each of their specific places when it came to designing and delivering innovation and economic growth policies. While each of the three city regions has its own distinctive demographic, economic profile and governance arrangements, there are a number of characteristics in common that are worth noting. For instance, they all stressed their aspirations to develop a more inclusive and place-based view of innovation. This provided the motivation for our follow-up study, which is more comprehensive both in including Belfast but also in adopting a quadruple helix approach and engaging with civic society actors.

Regarding the *Regional Economic Growth* project, it is notable that all three city-regions reported similar challenges with respect to the tensions in their vertical governance arrangements even though they were located in three different nations of the UK. Moreover, since each city-region consists of multiple local authorities (between eight and ten), they all experienced horizontal governance tensions when mobilising their collective efforts. Some of the findings of the *Regional Economic Growth* project are relevant to the discussion here, namely:

1. *The evolution of a city region over time*. There is a temporal dimension to innovation policy development which was acknowledged by respondents across all three regions. This was particularly relevant to how path- and place- converge to shape the institutional context of a region. These developments have informed the specificities of how each city region has been developing the institutional arrangements that both provide the basis for horizontal governance and constitute the new actors within the vertical governance landscape of the UK. In each case these institutions are accountable to a cabinet of local authority political leaders, and this can prove to be a source of constraint and uncertainty on occasion as well as providing the political mandate for action and investment.

2. *A strengthening of place-based innovation policy*. All three regions reported a growing recognition of the importance of place-based innovation policies to support inclusive economic growth. While much of the policy focus began with a STEM-led view of innovation and a city centre locus for investment, it was generally accepted that more

[1] https://innovationcaucus.co.uk/app/uploads/2023/06/Innovation-Caucus-Regional-Economic-Growth.pdf

inclusive policies needed to be adopted to benefit the whole of the region. It was common to hear of tensions between the city centres and the peripheries in terms of priorities and investment needs, particularly from some representatives of marginalised communities. This is an important reminder of the complexities inherent in a place-based approach. As noted above, even within a geographically focused and comparatively bounded city-region, there is a range of differing economic, social and often political circumstances to be taken into account. For example, recognition of the specific challenges faced by the northern valleys (ie the former coalfield) within the Cardiff Capital Region has prompted an initiative focused on the needs of this subset of local authorities. Similarly, the Greater Manchester Combined Authority has complemented its support for innovation zones in the city centres of Manchester and Salford with plans for new developments in the northeast of the city region in Rochdale and Bury. These examples represent negotiated outcomes across horizontal governance partners in particular.

3. *Building a regional innovation ecosystem*. Consistent with a place-based approach, each region was actively developing its own version of a regional innovation ecosystem. A form of triple helix was evident in all three regions but challenges were also reported, including the difficulty of engaging small and medium-sized enterprises and of universities prioritising research over innovation. That said, universities were seen as having a key convening role, providing 'safe spaces' within which stakeholders could come together to explore shared priorities, and were also described as providing continuity and institutional memory. How universities engaged with the multilevel actors varied across the three regions though all are directly influenced by UKG and UKRI. The recently announced Industrial Strategy, and the development of a greater place-based sensibility at UKRI, reflect the importance that UKG is placing on regional collaborations in delivering its mission-based agenda. As we have seen above in the example of the Investment Zone in Cardiff Capital Region, navigating how UK national policies and initiatives are to be enacted within each of the Celtic nations can be a prime source of both vertical and horizontal governance tensions.

4. *Meeting future skills needs*. Skills were a key point of discussion and participants thought greater engagement with Further Education (FE) colleges and schools would help to spread the benefits of local development. There was a widely reported view that these actors are under-represented and undervalued in policymaking currently, despite the fact that they are a crucial part of a 'skills pipeline'. This is another area where city-regional policies need to be developed in ways that reflect both local needs and the wider policy context. For example, education is a devolved matter and in Wales, Welsh Government has created a new institution, *Medr*, which has regulatory responsibility for the whole of the tertiary education sector in Wales, higher education, further education and local authority maintained sixth forms.

5. *Better data is needed for both policy design and evaluation.* There was consensus that more needs to be done to both produce and use data that are able to address the specifics of the region at more granular levels. For example, regions were seeking better data on the specific characteristics of their priority sectors and skills needs. There are at

least two components to this issue that are worth considering. The first is whether city-regions are utilising the data that are already available. The second is whether data generated at the national UK level are fit for purpose for those developing innovation policies at regional levels. Our research respondents were keen to stress the need for consistent, coordinated and coherent data that could provide an evidence base for decision making to inform investments and a consistent baseline for subsequent evaluation. This looms particularly large as the UKG seeks to mobilise its economic development agenda through UK city regions.

6. *The challenges of multi-level governance and policy churn*. Very much in line with our concerns here, respondents consistently reported problems with multilevel governance arrangements and with the degree of policy churn. It is particularly notable that this is consistently the case given that we have an English, a Scottish and a Welsh city region each of which is subject to different governance arrangements. As we concluded in a recent paper discussing these findings, 'policymakers in the three city-regions are negotiating two tensions: one, the vertical tensions imposed by national (UK and devolved nation) strategies and funding requirements; and two, the horizontal tensions presented by a differentiated city-region context (in terms of outcomes and politics due to the interaction of multiple local authorities within this context). At the core, here, is institutional change and agency operating at the interstices of centralised governance and direction (which nevertheless shape the opportunity for local action), and long running concerns for fairer and more sustainable local economies (the needs that local action is increasingly sought to satisfy) (Parsons et al, 2024: 314).

This project identified a number of implications for policy and practice:

1. *Addressing future data needs*. As noted above, there are concerns about the quality of available data, including its consistency and also whether existing data that address related key issues such as health, economic activity and transport can be readily combined. Generating data that speak with consistency and coherence to the specifics of each region at the appropriate levels of specificity and granularity will be key in underpinning both evidence-based policy development and its evaluation. This current weakness is even more pronounced when one considers emerging and foundational sectors that must be part of an inclusive innovation agenda. A question perhaps primarily for UKG is whether the data currently generated are sufficient – and sufficiently granular – to support regional actors in delivering the missions approach to industrial strategy. Of course, this is no less an issue when one considers the metrics that are used to monitor and evaluate knowledge exchange and this is a space where recent attention is both warranted and welcome.

2. *Designing and delivering policy mixes that work for the whole of a city region*. Each of our city regions is home to a highly diverse set of economic circumstances. A perennial challenge remains decision making that strikes a balance between support for the areas and sectors with the greatest economic potential and investing in the areas of greatest social need. In our view, the pressing objective to ensure widespread benefit across the whole of a region will be bolstered by broader conceptions of innovation that embrace micro firms, support social as well as STEM-centred innovation and seek to leverage

activity in the foundational economy through what we have termed elsewhere 'mundane innovation' (Henderson et al, 2024). We see these as central aspects of an inclusive innovation approach that seeks to deliver benefits as widely as possible. Furthermore, this inclusivity objective will require attention to the 'innovation commons' of a region, that is the 'raw materials' of future innovation. This means both nurturing the future pipeline of skills and developing local resources are crucial complements to cluster focused investments that build on perceived regional (and national) strengths. Here again we see the importance of a coherent approach to policy development that harnesses the opportunities of the multilevel polity rather than being stifled by it.

3. *Horizontal linkages in a multilevel governance context*. With respect to policy coherence, one of the most conspicuous institutional shortcomings of devolution is the weak or absent *horizontal* linkages that might otherwise connect city regions across the UK. One has to wonder what has stymied the development of institutional arrangements that would enable city regions to engage with and learn from each other. This lack of a UK-wide network to share experiences, identify common problems and communicate promising practices compounds the challenges facing all city regions in the multilevel polity.

Having reviewed some of the institutional challenges to innovation and economic development posed by the UK's new multilevel governance system, we now turn to the Basque Country, where multilevel governance arrangements have been successfully harnessed to support innovation and regional development.

4 The Basque Innovation Ecosystem and its Implications for the UK

Drawing on first-hand experience, primary research and secondary sources, we argue that the Basque Country presents a compelling model of a mature, resilient, and strategically coordinated innovation ecosystem; so much so that it has become an international reference point for an old industrial region that has managed to re-invent itself (Morgan, 2016). Its success is rooted in decades of policy continuity, a strong sense of regional identity, and a sophisticated multilevel governance framework that has mobilized the skills and commitment of multiple actors. We suggest that these features offer valuable insights for the nations and regions of the UK – and indeed UK as a whole – as we seek to strengthen our own innovation landscape.

Some of the core features of the Basque system[2]:

1. *Policy continuity and strategic direction.* A defining strength of the Basque innovation system is its long-term policy consistency. For over 40 years, the Basque government

[2] This section draws in part from a Learned Society of Wales roundtable hosted by the first author: https://www.learnedsociety.wales/lessons-for-wales-from-the-basque-innovation-ecosystem/

has maintained a clear and stable commitment to science, technology and innovation (STI). This continuity has allowed institutions and businesses to align with long-term goals, fostering trust, investment, and sustained development. This stands in stark contrast to the perennial complaints levelled at policy and institutional churn in the UK.

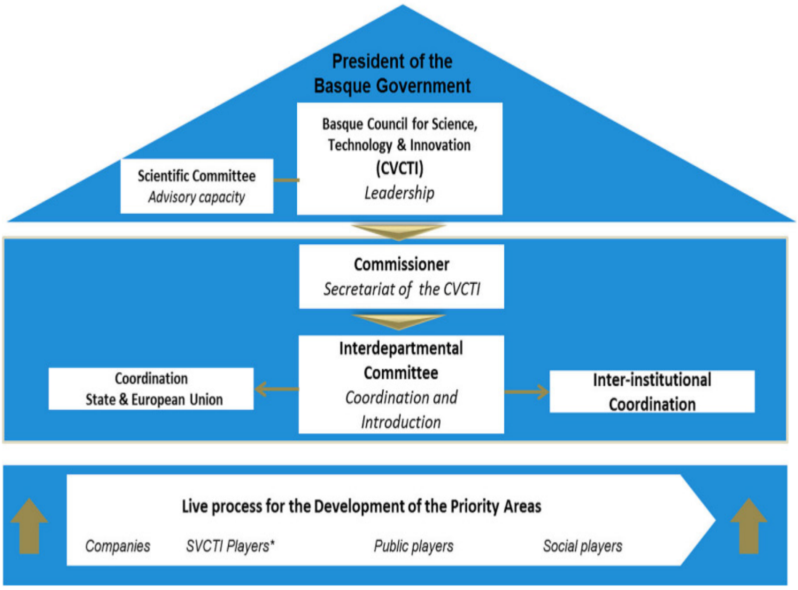
2. *A well-integrated multilevel governance system.* The Basque Country operates within a complex multilevel governance system that straddles the European Union and Spanish central government, the Basque autonomous government and its three provincial administrations. But the system is comparatively much better integrated and coherent than in the UK. One particular and crucial difference between the UK and the Basque system is that the three provinces have tax-raising powers. This means that they are significant actors in funding and shaping innovation policy to act locally in ways that are relatively autonomous of the Basque and Spanish governments — an institutional feature absent in the UK. This layered governance structure allows for a granular, place-based approach to innovation. The Basque government sets strategic rules and frameworks, while intermediary institutions coordinate implementation and foster collaboration across sectors and regions.
3. *Institutional intermediaries and networked collaboration.* In another contrast with the UK innovation landscape, the Basque system has numerous intermediary organisations that play a pivotal role in bridging and connecting the diverse elements of the Basque innovation system. These bodies act as links between government, academia, industry, and civil society, enabling collective entrepreneurship and joint problem-solving. The system is thus characterised by both institutional density and semi-permanence – a stark contrast to the institutional churn in the UK.

Beneath the overarching policy and institutional arrangements, the Basque system is organized around three pillars of innovation infrastructure. Each of these reflects a coordinated set of collaborative practices and structures. The first is the Science, Technology, and Innovation Network which was instituted in 1997 and has been consolidated as a focal point for innovation policy in the Basque Country. This is a coordinated network of accredited agents, including research centres, universities, and technology parks. While there is a heterogeneous range of actors with separate roles within the network, each has a clear understanding of how these fit together. The network contributes to the coherence and stability of innovation efforts across the nation.

The second pillar is composed of a series of cluster organisations. In total there are sixteen cluster organisations, each of which serves a dual role: they are instruments to support public policy goals, facilitating transformation through relationships with government, and instruments of business competitiveness, facilitating collaboration across the nation. These cluster organisations are instrumental in driving regional transformation and industrial innovation.

The third pillar is the Basque Country's Smart Specialisation Strategy. This strategy targets societal challenges through three strategic priorities (smart industry, cleaner energy, personalised health), four opportunity areas (healthy food, eco-innovation, sustainable cities and creative industries), and transformative, cross-cutting initiatives that have targeted healthy ageing, circular economy and electric mobility. The Basque "Governance House" for coordinating this innovation policy landscape is shown below in Figure 1 (Aranguren et al, 2023).

Figure 1: The Basque Governance System For Science & Technology



A recent EU report confirms that the Basque Country has been committed to sustained investment in its own ecosystem: 'Between 2001 and 2022, the annual investments of the Basque Government in science, technology and innovation nearly tripled from EUR 618 million (2001) to EUR 1.8 billion (2022), turning the Basque Country into one of Spain's leading innovation regions. The innovation agenda of the region is strongly driven by an **outward-looking dimension**, actively engaging the Basque Country in euroregional collaboration with France and European innovation initiatives.' The report highlights the Basque commitment to international engagement: 'In the view of the Basque Government, inter-regional cooperation is critical for overcoming fragmentation in innovation efforts and for ensuring that synergies in innovation capabilities and in cross-fertilisation possibilities across sectors and technologies are fully exploited. Such cooperation can therefore play a key role in boosting competitiveness at the regional level and at the European level, which puts a premium on developing effective inter-regional cooperation instruments.' [3]

What are the implications of the Basque experience? Without wishing to suggest that institutions and policies can be cloned, it is possible to learn from the experience of others. In that spirit we highlight four aspects of the Basque system that merit attention:

1. *Long-term policy vision*: The UK and its devolved nations would benefit from adopting a more consistent and long-term approach to innovation policy. The Basque experience shows that sustained commitment over decades yields significant returns in institutional maturity and positive innovation outcomes as a result. Long-term and

[3] https://www.interregeurope.eu/find-policy-solutions/expert-support-reports/financing-interregional-innovation-cooperation-in-basque-country

sustained policy development does not in itself remove the challenges inherent in navigating vertical and horizontal governance arrangements, but it does produce a more stable and predictable context for managing both dimensions. The Basques have their own governance tensions, but they have developed deliberative mechanisms (like the 'Governance House' for example) for resolving them in a timely manner.

2. *Strengthening intermediary institutions*: In our view the UK generally, and Wales in particular, are currently underpowered in terms of intermediary bodies that can coordinate across sectors and levels of governance. Developing or empowering organisations akin to Innobasque or Euskalit could enhance coherence, reduce duplication, and foster collaboration.

3. *Leveraging multilevel governance*: City-regional actors in the UK currently lack the fiscal autonomy of the Basque provinces, but nonetheless improvements can be made in terms of coordination across local, regional, and UK-wide levels with a clearer delineation of roles and responsibilities. Coupled with stronger partnership working within an agreed overall framework, this would enhance the effectiveness of innovation policy and see the UK enjoy more of the benefits and less of the problems of its multilevel polity.

4. *Fostering a culture of collaboration*: Closely connected to the Basque Country's formal institutions and policy levers is the rather more intangible but no less significant "culture of country-building" that promotes collective identity and mutual support. Our research in the city-regions of the UK has highlighted the importance of these less concrete aspects of regional innovation policy, including both 'culture' and 'narrative', and the centrality of these to their ongoing efforts have been explicitly acknowledged by our respondents. Here again we can see the importance of a cohesive approach within and across levels of activity in order to promote cultures and narratives that are inclusive, shared and support innovation.

In summary, the Basque innovation ecosystem exemplifies how a small region can achieve global competitiveness through sustained investment in R&D and knowledge exchange, strategic governance, institutional collaboration and cultural cohesion. For the regions and nations of the UK, the point is not to seek to replicate the Basque model, but rather to discern and adapt some of its underlying principles—like long-termism, coordination, and inclusivity — to their own local circumstances.

5 Concluding comments

Three key points emerge from this insights paper. First, we highlighted the vertical and horizontal governance challenges that have emerged in the UK's new multilevel polity following Brexit. We argued that these institutional challenges have the potential to severely compromise place-based innovation policy unless they are acknowledged and resolved. Wales was used to exemplify these tensions because it illustrates the problematical vertical power relationships between the supranational, national and subnational levels when there is little or no consensus as to who does what at each level. We contrasted this confusing state-of-affairs with the

Basque Country, where many of the key stakeholders are members of the 'Governance House', which constitutes a common space in which policy conflicts in science, technology and innovation can be openly discussed and resolved in a deliberative manner. The recently created Council of the Nations and Regions in the UK was designed to be a convening space for the political leaders of the multilevel polity, but its mandate is more concerned with constitutional issues than with innovation and regional development policy. As it is, time alone will tell whether the *Modern Industrial Strategy* will fare any better, or last any longer, than its predecessors.

Second, horizontal governance challenges can be discerned at two levels: (a) at the central level of the UK Government, where mission-led innovation requires an unprecedented degree of cross-departmental collaboration and (b) at the subnational level, where city-regions are deemed to be "the engines of the modern economy" in the words of the *Modern Industrial Strategy*. But UK city-regions have under-performed relative to their counterparts in Europe and this suggests that their regional innovation ecosystems need to be empowered and resourced to fulfil their potential. These issues affect all the actors of the quadruple helix. Each actor will have to respond to these challenges in its own way but, we would argue, they need to do so mindful of their respective roles within their innovation ecosystems.

Take universities for example. Given their sector-specific problems, universities are coming under mounting pressure to engage with their regional innovation ecosystems in new ways. As a recent report to UKRI, *Research and Innovation and Place*[4] elaborates, the strongest performing innovation ecosystems – and by implication, those best placed to secure competitive funding – will have 'a critical mass of assets, working effectively', strong and effective linkages between the components of the ecosystem, and 'institutional capacity, co-ordination and leadership'. Universities have a key role to play here but will need to contribute to the resolution of horizontal and vertical tensions where they exist. If universities are required to play a more prominent role in promoting innovation and growth (as the recent reform of the Higher Education Innovation Fund would seem to suggest), this mandate will need to be properly funded given the parlous financial condition of many universities. More generally, there remains a question over the fitness for purpose of the established university model. In our conversations with city-regional stakeholders we often hear reference to the need for 'less research-led innovation and more innovation-led research' (Delbridge, et al, 2021) while another observation is that universities will need to get better at 'helping answer questions others are asking'. Universities can and should be part of those answers.

Our own experiences have revealed both the opportunities and challenges in this space. In our work with individual local authorities (e.g., Henderson et al, 2024), with a specific city region in designing and delivering an innovation challenge fund (Henderson, et al, 2023) and in our research comparing city regions (Parsons et al, 2024), we have encountered many barriers to collaboration within regional innovation ecosystems. Some of these are probably *caused* by how universities currently operate and how they relate to their interlocutors. The new innovation funding landscape in the UK – like the *Modern Industrial Strategy* - is likely to ask

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[4] https://www.ukri.org/wp-content/uploads/2022/08/UKRI-050822-ResearchInnovationPlace-FinalReport.pdf

searching questions of universities because the degree of directionality from central government is becoming more pronounced.

Finally, the growth of the place-based approach to innovation and development has created an urgent need for more granular, consistent, coherent and coordinated place-based innovation data. Our empirical research projects have consistently revealed the need for such spatial granularity and to this end we partnered with Cardiff University's Welsh Economy Research Unit to produce a Local Innovation Scorecard that enables each of the 22 local authorities in Wales to be compared with respect to innovation drivers, barriers and outcomes (Mockridge, et al, 2025). This was produced in partnership with both Welsh Government and the Cardiff Capital Region as a response to the data limitations reported above and some of the core findings are illustrated in Appendix 1. More granular place-based data will become ever more necessary if programmes like the *Local Innovation Partnerships Fund* are to succeed because the latter will need not just conventional innovation data writ small, but also data that provide actionable insights into the quality and efficacy of the relationships at the heart of regional innovation ecosystems.

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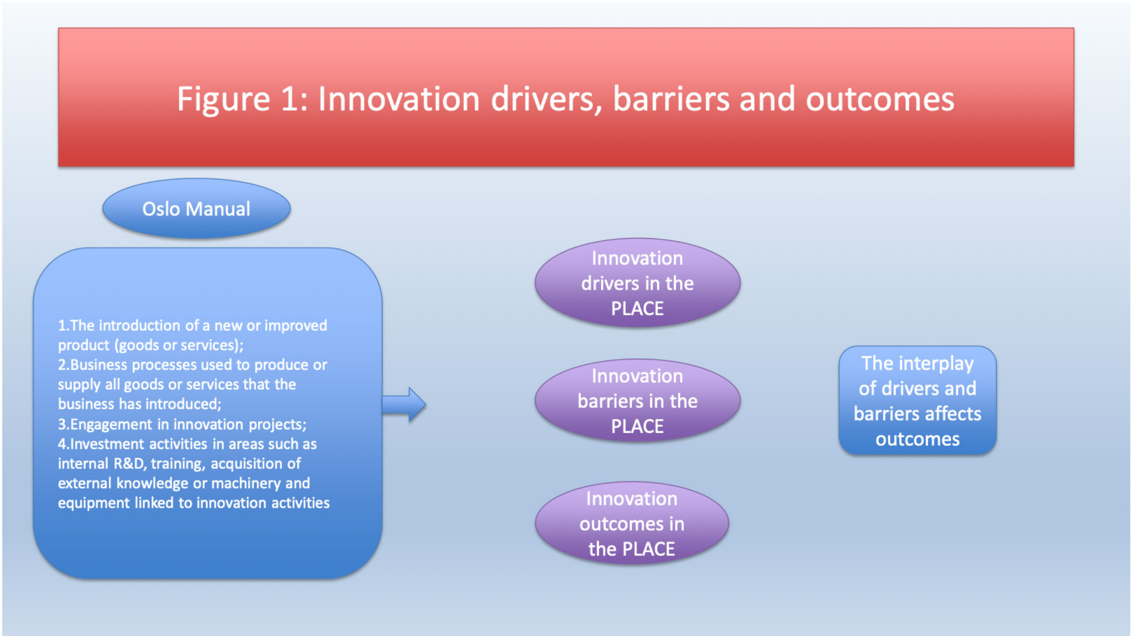
Appendix 1: A Local Innovation Scorecard



Both figures from Mockridge et al (2025)

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