

Welsh Government consultation: Wales and the EU: Partnership for Jobs and Growth – European Structural Funds 2014-2020

1. About Higher Education Wales

Higher Education Wales (HEW) represents the interests of higher education institutions (HEIs) in Wales and is a National Council of Universities UK (UUK). HEW's Governing Council consists of the Vice-Chancellors of all the HEIs in Wales.

2. About this response

HEW welcomes the opportunity to respond to this Welsh Government (WG) consultation on the strategy, investment priorities, cross-cutting themes, and implementation and delivery issues of the next round of European Structural Funds (2014-2020). Wales' future economic prosperity depends on its ability to fully participate in the global knowledge economy. In parallel, the promotion of social justice depends fundamentally on the creation of economic prosperity and expansion of high level educational opportunities for people across Wales.

For the 2014-2020 period, it is expected that West Wales and the Valleys (WW&V) will qualify as a "*less developed region*" and that East Wales (EW) will qualify as a "*more developed region*". This response takes into account both regions and their opportunities and challenges.

HEW would like to emphasise the following points:

- The need to use European funding in 2014-2020 for transformational change, not for 'business as usual'. HEIs have demonstrated their ability to deliver major, transformational projects, and will be key to delivering change in the next funding period.
- The importance of engaging with the European policy context, and in particular, the strong focus on research and innovation (R&I), small and medium enterprise (SME) competitiveness, skills development, and a resource-efficient, low-carbon economy.
- HE engagement with Structural Funds delivers jobs and growth, including securing jobs at all levels. HEIs must therefore play a major part in the delivery framework for Structural Funds programmes. Closer collaboration between HEIs and industry is needed to improve the design and performance of projects, if HE projects are to maximise their potential in terms of driving forward regional jobs and growth. A simplification of processes is needed, to enable jobs and growth to occur sustainably. HEIs can be an effective conduit to the private sector through existing partnerships and networks.

- The importance of building on the current programmes and learning from past experiences. Progress has been made in developing a knowledge based economy through a more strategic approach. This should be continued and strengthened.
- Reflecting Welsh economic performance – levels of productivity, innovation and skills. Future European programmes in Wales should respond by seeking to enhance levels of innovation and productivity and support higher level skills development.
- HE research activity is key to driving innovation in Wales. For this to be a success, the WG and the Wales European Funding Office (WEFO) must be clear about their expectations, and work in partnership with the HE sector to plan and deliver appropriate projects.
- A strong emphasis should be placed on investing in education, skills and lifelong learning, which will help to address employability concerns, as well as promoting enhanced levels of productivity.
- The HE sector improves social equality through regeneration and cultural development, and activities directed towards widening access and participation should be recognised as a key driver of skills development, employment, entrepreneurship, and ultimately growth – in both economic and social spheres. The development of regional human capital and skills to drive the economy in Wales is dependent on our HEIs. This aspect of HE's role must not be neglected.
- Maintaining a focus on the strategic direction of projects is key, to ensure project relevance is monitored, and project outcomes are achieved.
- The opportunities to build synergies with Horizon2020 (H2020) and other programmes and funding streams should be embraced to maximise opportunities to build critical mass. The HE sector in Wales is actively working with key 'anchor' companies, such as Airbus, Boots and Tata as well as a myriad of smaller leading companies, in some cases assisted by European Structural Funds.
- The HE sector is central to economic and societal development in Wales.

3. Context

This consultation takes place within a context where the UK's competitor nations are moving ahead by increasing investment in research and science, and rapidly increasing the number of people with higher level skills. The 2014-2020 round of European programmes offers a crucial opportunity for Wales to invest in its future and begin to close the gap with the rest of the UK and the EU, through strengthening the global competitiveness of the Welsh economy. It is also an opportunity to develop a coherent approach across all four of the

Common Strategic Framework (CSF) funds and the European Territorial Cooperation programmes.

A major consideration in 2014-2020 programme development must be the performance of the Welsh economy. Wales' economy lags behind the UK, and much of the EU across a range of indicators. There are two key dimensions to this. Firstly, there is poor comparative innovation performance of the Welsh economy as a whole. This has implications for the continued competitiveness of firms, and ultimately, on the employment prospects and economic wellbeing of residents in Wales. Addressing this requires investment in knowledge development, productivity improvement and skills. Secondly, Wales, as with the EU, is under-investing in products and processes which are required to meet forthcoming societal challenges, such as demographic change, climate change, and the low carbon economy. This has social and environmental implications and will ultimately impact on the wellbeing of residents and may well have economic implications in so far as our firms and institutions fail to invest in market opportunities.

It is essential that future European programmes in Wales provide support to build capacity and enable growth in existing research teams and clusters in Wales' HEIs, with an increased focus on working with companies, and the creation of new centres of research excellence for the benefit of the regional economy. Some two thirds of productivity growth is generated through innovation¹, therefore, this must be awarded priority to address the productivity gap in Wales. As such, an emphasis in European programmes in R&I capacity is appropriate, particularly through stimulating collaboration between researchers and industry. The current European programmes have demonstrated the potential of this approach and the 2014-2020 programmes can useful build on the advances which have begun to be made.

Through engagement with both companies and educators, HEW appreciates the significance in investing in education, skills and lifelong learning for future prosperity in Wales. It is crucial that future European programmes in Wales recognise the importance of higher level skills as well as the more traditional focus on basic skills. A highly skilled workforce is one able to meet the future demand for labour, and able to contribute to SME competitiveness in the global economy.

4. Consultation areas:

4a. Analysis - Do you agree that we have identified the key economic and labour market challenges and opportunities?

Agree. The SWOT analyses identifies the contribution of high quality research from Welsh HEIs and recognises that the strong research record can help foster innovation in the wider economy.

¹ Nesta Innovation Index, 2009 <http://www.nesta.org.uk/library/documents/innovation-index.pdf>

HE in Wales makes a significant economic impact – at local and national level. HEIs' regional economic impact is documented in the *Impact of Higher Education Institutions on Regional Economies: A Joint Research Initiative*² work. HEIs contribute more than £2billion a year in gross expenditure to the Welsh economy.

The SWOT analyses provided in Annexes A-E notes “*HEIs have a strong research record and could help foster innovation in the wider economy*”. This should be expanded to recognise HE's pivotal role driving economic growth and development in Wales. Research capability at Wales' HEIs is a national asset, and the sector is part of a world-leading UK science base, which is second only to the United States of America for its share of global citations. The sector is working to build on its diverse and unique strengths to enhance Wales' global competitiveness.

To help ensure a transformational and sustainable impact on the Welsh economy, investment is needed to build R&I capacity and enable development, as witnessed elsewhere, for example, Saxony.

4b. Strategy - Do you support the strategic visions, aims and objectives?

HEW broadly supports the strategic visions, aims and objectives, although the contribution that HE can make towards delivering these should be highlighted.

Evidence suggests that it is the reputation of HEIs and the calibre of their staff that will attract future investment to Wales. The WG has committed up to £50 million to the Sêr Cymru³ programme to enhance and build upon the research capability in Wales, which aims to attract world-leading scholars and their teams to Wales. R&I is a key priority for the European Commission, and should be embraced across the 2014-2020 programme – it will be key to supporting the development of higher level skills in Wales.

The existence of National / Regional Research and Innovation Strategies for Smart Specialisation⁴ has been made a pre-condition for the R&I themes of Structural Funds programmes. The European Commission has also made it clear that it expects such strategies to inform applications to H2020. The WG's innovation strategy *Innovation Wales*, alongside *Science for Wales* and other relevant policies, will guide investment in this area.

HEW notes the intention for R&I Research and Development theme (Theme 2) not to fund “*basic research where there is little opportunity of commercial exploitation (for exploration of knowledge with no commercial outcome in mind)*”. This suggests projects will need to provide evidence of their potential for supporting economic development. Focusing purely on

² Impact of Higher Education Institutions on Regional Economies: A Joint Research Initiative

<http://ewds.strath.ac.uk/Default.aspx?alias=ewds.strath.ac.uk/impact>

³ Sêr Cymru <http://wales.gov.uk/topics/businessandconomy/csaw/sercymruprogramme/?lang=en>

⁴ Research and Innovation Strategies for Smart Specialisation

http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/smart_specialisation_en.pdf

the exploitation of commercially relevant research may mean that Wales misses opportunities to build up research excellence and capacity, as demonstrated by the use of Structural Funds in the Saxony example. A combination of approaches would best build capacity and deliver sustainable economic recovery for Wales.

The exclusion of “*basic research*” may also risk excluding projects that combine a number of funding sources. Match funding can be a challenge for HEIs, and excluding some funding sources may prevent institutions from accessing Structural Funds.

Europe 2020⁵ argues that higher level skills are vital, and presents an EU wide target of “*at least 40% of 30-34 year olds completing third level education*”. The strategy accentuates the need for higher level skills projects which have strengthened links between education and work and are market driven to continue “*improving employer demand-led and responsive skills provision, in particular linked to sectors with growth potential, to make Wales a globally competitive and even more attractive place to do business*”. For Wales to achieve the ambitious Europe 2020 target, the on-going need for higher level skills provision is clear. One of Wales’ key strengths is the ability of its HE and further education sectors to work collaboratively with the private sector to create employer responsive provision, and this approach will be central towards achieving these ambitious targets.

Whilst investing in infrastructure is key to supporting the priorities listed, it should not be a stand-alone objective in its own right, but rather a platform for the priorities to flourish. The attractiveness of infrastructure projects is clear – many have very visible and immediate outputs, for example, roads, bus stations, and urban physical regeneration. However, the key in 2014-2020 must be pump priming a vibrant knowledge economy.

4c. Strategy - Do you agree with the approach to integration of the various European funding streams?

Agree. The removal of strict demarcation between CSF funds in the 2014-2020 period is to be welcomed. A move towards investing in growth is a positive step, and the opportunities for closer integration between funds are constructive, i.e. European Agricultural Fund for Rural Development, European Fisheries Fund, European Regional Development Fund (ERDF), and the European Social Fund (ESF). Integration of programmes does present a range of challenges, where programmes have substantially different requirements for the management and administration of different aspects. Integration of programmes is to be welcomed, where a project straddling two or more programmes can operate with one administration and funding structure. It is important that any administrative burden should be minimised. The potential for cross-programme projects presents a distinct possibility that more projects will reach the EU major projects limit threshold (€50 million) and would therefore be subject to appraisal and consideration by the European Commission. WEFO must address these practical challenges as early as possible in the new programming

⁵ Europe 2020 http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/targets/index_en.htm

period. Clear direction and guidance from WEFO will be essential in avoiding unnecessary delays at the start of the programme.

Approaches that lead to synergies between Structural Funds and H2020 are to be greatly welcomed, although further clarification is needed on how these synergies will operate in practice. For example, the management of Structural Funds is risk averse, whereas successful H2020 applications will be both aspirational and risk tolerant. The need for Structural Funds to play both an “upstream” and “downstream” role has been noted. Upstream of H2020, Structural Funds should be used to build capacity, in particular: to finance equipment, human resource development, the creation of clusters in priority areas of H2020, and for small grants for proposals for H2020; and to fund European Research Council, Marie Curie or collaborative projects that meet excellence criteria but cannot be funded because of budgetary constraints. Downstream of H2020, Structural Funds could be used to smooth the journey from idea conception to market including: financing or co-financing follow ups to H2020 research projects; and be used to encourage access to knowledge or to facilitate the deployment of resulting knowledge for economic or societal use.

4d. ERDF and ESF Priorities - Do you agree with the focus of the priorities?

HEW broadly agrees with the focus of the priorities. To deliver transformational change for Wales, which supports the development of a knowledge based economy, investment in R&I across the CSF needs to be significant. Wales will continue to compete and collaborate with nations who are more advanced in developing their highly skilled economies, so supporting the development of higher level skills should be central. HE is fundamental to delivering objectives across the ERDF and ESF programmes, and central to economic development. Whilst progress has been made to embed higher skills in the private sector, there is more work to do, and successes achieved in the current programme should be built upon. The aim *“to invest in skills as a driver of productivity and growth, supporting progression in employment and helping tackle in-work poverty”* is one that HE can help to deliver. Higher level skills provision should be demand responsive and flexible where possible.

4e. Cross Cutting Themes - Do you agree with the approach adopted for the Cross Cutting Themes?

The European Commission requires that cross-cutting themes be adopted across the four CSF funds. For Structural Funds, the WG has added an additional theme - *“Tackling poverty and social exclusion”*. As such, it is vital that Structural Funds in the 2014-2020 period are used for long term, sustainable change, and not for funding short term initiatives which may alleviate poverty for a short period of time. This type of transformational change is to be welcomed.

The tackling poverty theme could be approached with a range of measures, but improving skills must be central to the approach. At this stage, it is a challenge to envisage how the

theme will operate across the programmes, given that project sponsors will be expected to demonstrate how themes are integrated within their projects. Further guidance would be welcome, in particular for R&I projects.

Clear guidance will be required on the indicators for the cross-cutting themes. Many of the benefits resulting from the cross-cutting themes may be indirect, and therefore difficult to illustrate through a 'traditional' indicator.

4f. Implementation arrangements - To what extent should we target resources on key industrial / business sectors?

Dr Grahame Guilford, who undertook a review of implementation of Structural Funds⁶ reported in March 2013. In the absence of specific implementation models or plans, it is challenging to comment on this question in significant detail.

Strong partnerships between HEIs and businesses can lead to increased turnover, increased employment rates, up-skilling of the workforce, opportunities for innovation, and maximising the potentials of research. The key challenge in targeting key industrial / business sectors is often the small number of Convergence SMEs operating in that sector. Welsh HEIs have healthy existing networks and collaborations with larger industry sector partners. Enabling these larger firms to engage with Convergence SMEs, in partnership with the HEI, would facilitate knowledge transfer to benefit the SME. Arrangements that would allow and / or encourage engagement with companies outside of the Convergence area would be welcomed.

Whilst it is valuable to target a proportion of resources on key industrial / business sectors, this should not be to the detriment of emerging growth sectors in Wales. Flexibility is key here, and is particularly important in the current economic context in Wales.

4g. Implementation arrangements - To what extent should we target resources on the economic growth of particular geographical areas?

Dr Grahame Guilford's review of Structural Funds advocates the development of an Economic Prioritisation Framework and regional planning mechanisms. It is currently unclear how a regional approach would or could be coordinated to engage with HEIs, local authorities, WG and other agencies. The HE sector is keen to engage with any regional organising structures at an early phase, and would urge the early release of relevant guidance or information.

Whilst interventions that respond to the particular needs of a geographic location may be sensible, a strong focus on geographic areas must not restrict or hamper innovation. The targeting of resources should not be overly prescriptive from the start – by geographical

⁶ Investing in Growth and Jobs: An Independent Review of Arrangements for Implementation of European Structural Funds Programmes 2014-2020 <http://wales.gov.uk/docs/wefo/publications/130314guilfordreporten.pdf>

area, or sector. Regional approaches can be successful where a range of stakeholders work together to meet the specific needs of a region. In the current programme, many of the HE projects are focused on higher level skills and specific industry sectors. These pan-Wales initiatives' strength is their sector-wide nature, which is not limited by geographical boundaries. Both approaches – regional and pan-Wales can work, and both have a complex set of interweaved advantages and disadvantages. Leveraging investment from outside regions must be key to any regional approach, to ensure that a regional approach does not lead to parochialism.

In the 2014-2020 programme, flexibility will be key, enabling partnership and collaboration across Wales, and internationally, to maximise economic returns to Wales.

4h. Implementation arrangements - How can we maximise the benefits of a City Region approach and European Structural Funding?

The Welsh Government's City Regions report⁷ states: "*The higher education offer is an important strategic element of a city region. [...] institutions must be engaged as part of the city region approach: city region evidence shows that universities properly engaged with businesses add real value to wealth creation, growth and high skilled value added jobs*". The challenges for the City Region approach is to find a balance that provides local solutions to local problems, but also offers an international dimension to the Welsh economy. If the intention is to develop the City Region approach, areas that benefit from higher skills projects must ensure their success radiates out to the surrounding areas.

4i. Implementation arrangements - To what extent should we make use of repayable finance rather than grants?

There must be legal clarity on all financial instruments. It should be noted that HEIs who have partnered with SMEs in Wales have reported that SMEs can find comprehending the European Commission's State Aid regulations challenging. Any interventions should be transparently structured and appropriate support made available and accessible.

⁷ Welsh Government, City Regions Final Report, 2012
<http://wales.gov.uk/docs/det/publications/120910cityregionssummaryen.pdf>

4j. Implementation arrangements - What do you think the balance between ERDF and ESF resources should be (in percentage terms)?

For WW&V:

ERDF	ESF	Please tick below
75%	25%	
60%	40%	✓
50%	50%	
40%	60%	
25%	75%	
		Other (please specify)

For EW:

ERDF	ESF	Please tick below
75%	25%	
60%	40%	✓
50%	50%	
40%	60%	
25%	75%	
		Other (please specify)

A significant investment in skills is essential to underpinning the development of the knowledge based economy in Wales. A higher spend in ERDF will enable a greater concentration of resources on R&I activity.

4k. Implementation arrangements - What circumstances would warrant the transfer of resources between West Wales & the Valleys and East Wales?

A transfer which would lead to gains for Wales as a whole may be appropriate. The benefits of working on a pan-Wales basis have already been successfully demonstrated through a suite of collaborative higher skills projects in the current programme. Combining ERDF and ESF funding from both regions for one project has the potential to make a significant impact in some sectors.

4l. Implementation arrangements - How might implementation of future programmes be simplified and streamlined?

Future programmes could be simplified and streamlined in the following ways:

- With increased CSF programme integration, ensuring parity of administrative paperwork and rules between the different programmes will be key.

- Ensuring full engagement with Convergence SMEs by minimising the administrative burden, ensuring guidance is clear and accessible.
- Greater industry engagement could be encouraged and simplified through reviewing the procurement rules.
- The inclusion of a “*mobilisation phase*” between contract signing and project start, as set out in Dr Grahame Guilford’s review would be useful. This would avoid a slow start and ‘lag’ in project implementation allowing, for example, staff recruitment prior to the project commencement date.
- The introduction of WEFO advocated project management procedures applied to each project would, for example, ensure clarity of responsibilities, and project continuity with staff changes.
- The continuation and enhancement of the WEFO Project Development Officer (PDO) “*cradle to grave*” model, where a single officer is the point of contact throughout the application, development and post approval stages. In the current phase, there has been a high turnover of WEFO staff, which can result in delays and confusion. WEFO PDOs should be fully briefed on projects, and a project ‘ownership’ culture should be encouraged.
- The provision of clearer guidance for Project Sponsors on State Aid Compliance.
- The provision of clearer guidance on monitoring and audit requirements, with monitoring tools that are both robust and flexible. The provision of adequate training and support to ensure project staff have the sufficient knowledge to comply with monitoring and audit requirements.
- A transparent evaluation process of project bids, involving external representatives.
- A streamlining of the project selection process, including additional staff commitment, to avoid lengthy delays in project approval.
- Appropriate support structures to be in place from the start of the programme to maximise the potential for successful project delivery. This would include the ‘contractor’ (WEFO) providing the ‘sub-contractors’ (sponsors / deliverers) clear terms of engagement and to avoid the ‘one contract says one thing, and another says something else’ situation, which can make delivery difficult, and engagement with the private sector very difficult.

- To ensure that projects which are approved commence in a timely fashion, an appropriate and well-resourced evaluation process is essential, rather than a longer iterative journey to approval. It is important to ensure that new projects are approved in full from the outset, so that all stakeholders know the direction of travel. A situation where interim approval is contingent is not satisfactory, particularly if this implies any risk to sponsors. A case could be made for segmenting the assessment and approval processes through a gateway mechanism, if this means an independent evaluation which will inform approval.

4m. Implementation arrangements - To what extent is there scope for streamlining our Partnership Arrangements?

It is important that additional tiers of administration, which would either delay or prevent projects from starting, are avoided. Further engagement with WEFO to help facilitate the integration of funding streams would be welcomed. A single Programme Monitoring Committee to work across the CSF programmes might be considered.

4n. We have asked a number of specific questions. If you have any related issues which we have not specifically addressed, please use this space to report them.

Representatives of HEW, the Higher Education Funding Council for Wales, and the Wales Higher Education European Liaison Officers group met with representatives of WEFO to discuss the development of indicators post 2013 on 12 April 2013 as part of WEFO's consultation with stakeholders. A range of issues were discussed, and the following should be considered:

- Research and Innovation – an additional category of “technology readiness” would be useful, perhaps encompassed within the “*Number of enterprises receiving support*” indicator. Target results could be associated with this indicator, for example, moving from one level to another.
- Research and Innovation – further consideration should be given to the “*Private investment matching public support in innovation or R&D projects*” indicator. The indicator should be wider, to incorporate private investment and other investment brought in as a result of the project. Consideration should be given to measuring bids, rather than investment, for example, the number of competitive (the definition would need exploring, but should include peer-review) bids submitted.
- Education, Skills and Lifelong Learning – an additional category should be included in the participants' demographic information of ‘unemployed’. This may be the status of individuals enrolling on higher skills programmes, who may not be stepping immediately from full time education or employment into the programme.

- Education, Skills and Lifelong Learning – clarification is needed on the definition of ‘disabled’ in this context. In the current programme it is for individuals who consider themselves disabled to self-certify. The guidance provided in the “*List of common indicators for the European Social Fund*” states disabled people are “*Persons who are registered disabled according to national definitions*”. This is a step change from the current programme, and clarification would be welcomed from WEFO as to what is and what is not required.
- Education, Skills and Lifelong Learning – the phrase “*Research Studies*” needs clarification. In the current programme ‘research studies’ are part of some projects automatically, for example, the Knowledge Economy Skills Scholarships or Access To Masters programmes. Clarification of the phrase and its meaning in the context of the programme would be welcome.
- Education, Skills and Lifelong Learning – the inclusion of non-accredited qualifications would be welcomed as an additional indicator.
- Early Years and Young People – the gender category has been removed from the participants’ demographic information. Whilst this information can be garnered through the participant database, gender should remain a key target, particularly in the context of increased efforts to encourage women to engage in science, technology, engineering and maths discipline areas.

4o. Responses to consultations may be public – on the internet or in a report. If you would prefer your response to be kept confidential, please tick here.

This response is not confidential.

5. Conclusion

The 2014-2020 programming period offers an opportunity to transform the economy of Wales. It will operate in a starkly different economic climate to that which prevailed at the start of the current programme period. Economic austerity, cuts in public sector expenditure and challenging global market conditions require the sector to stimulate entrepreneurial capacity across our universities, and equip society with the skills both to compete in the global economy, and to contribute to increased productivity in Welsh businesses.

It is crucial that we use the resources available to develop a resilient economy and lay the foundations for long term economic prosperity. Efforts should be focused on building capacity for R&I, developing business competitiveness and promoting higher level skills, whilst developing a resource-efficient low carbon economy. It is crucial that the European programme resources are not used for well-meaning, short-term ends, but rather looking towards securing the transformation of the Welsh economy over the longer period. Taking

time through a strategic projects approach, the long-term impacts of the 2014-2020 European programmes will be worthwhile.

HEW is pleased to have had the opportunity to respond to this consultation. HEIs are significant players in fundamental aspects of the European programmes in Wales, and are key to economic development.

**HIGHER EDUCATION WALES
APRIL 2013**