

Review of Implementation Arrangements for 2014–2020 European Structural Funds Programmes in Wales

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. HEW provides an expert resource on the Welsh higher education (HE) sector.

2. About this response

HEW welcomes this review examining the management and implementation arrangements for Structural Funds Programmes in Wales. In submitting this response, HEW recognises that Wales' future economic prosperity depends on its ability to fully participate in the global knowledge economy. At the same time, the promotion of social justice depends fundamentally on the creation of economic prosperity and expansion of high level educational opportunities for people across Wales.

HEW would like to emphasise the following points:

- The importance of the European policy context – the strong focus on research and innovation, small and medium enterprise (SME) competitiveness, skills development, and a resource-efficient low-carbon economy.
- University engagement in Structural Funds delivers jobs and growth (including securing jobs at all levels). They are therefore a major part of the delivery framework for future Structural Funds Programmes. Closer collaboration between universities 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. To achieve this, a simplification of processes is needed, to enable jobs and growth to occur sustainably. Universities 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.
- University research activity is key to driving the innovation strategy for Wales. HEW believes for this to be a success, the Welsh Government and the Wales European Funding Office (WEFO) must be clear about their expectations and work 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 greater levels of productivity.

- The HE sector improves social equality through regeneration and cultural development, and activities towards widening access and participation should be recognised as being 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 ‘new’ economy in Wales, is dependent on our universities. 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 the projects’ outcomes are achieved.
- The opportunities to build synergies with *Horizon 2020*¹ and other programmes should be taken 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 the European Structural Funds.

3. Introduction

This review takes place in context in which the UK’s competitor nations are moving ahead by increasing investment in research and science, and rapidly increasing the number of people with high level skills. The next round of European programmes offer a crucial opportunity for Wales to invest in its future and to begin to close the gap on the rest of the UK and the European Union (EU), through strengthening the global competitiveness of the Welsh economy. The next round is an opportunity to develop a coherent approach across all four of the Common Strategic Framework (CSF) Funds and the European Territorial Cooperation Programmes.

4. Context

HEW supports the desire of the EU to stimulate smart, sustainable and inclusive growth and anticipate that this will be followed through in future European Programmes in Wales. In doing so, HEW hopes future programmes will build upon the strong foundations which have been laid in previous European programmes. This includes projects funded through the Structural Funds and those funded through other sources, such as the Research and Technological Development Framework (RTDF) Programmes, the Competitiveness and Innovation Framework Programme (CIP) and funds such as the Lifelong Learning Programme. HEW would like to encourage lessons to be learnt from innovative approaches – such as the Joint European Resources for Micro to Medium Enterprises (JEREMIE) Fund, and, in a different aspect, from those projects which have been less successful.

One of the key elements of current EU policy is its increased emphasis on greater integration in approach. This was strongly visible in the green paper on a *Common Strategic*

¹ European Commission - Horizon 2020 http://ec.europa.eu/research/horizon2020/index_en.cfm

*Framework for Research and Innovation*² published by the European Commission in 2011. HEW hopes this move towards integrating areas of common interest across funding programmes might be favourably considered in future rounds of the European programmes in Wales.

A major consideration for future programme development must be the performance of the Welsh economy. The Welsh economy lags behind the UK, and much of the EU across key indicators. HEW would like to highlight 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 of 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 future market opportunities.

Fundamental to a thriving knowledge based economy is a robust research and investment (R&I) infrastructure. The ERDF regulations³ stipulate that specific investment priorities will include enhancing research and innovation infrastructure capacities to develop R&I excellence and promoting centres of competence. HEW endorses this approach. Wales should be investing in the future and committed to the concept of 'stairways to excellence' whereby Structural Funds are invested to build the capacity for Wales to compete on the global stage.

It is essential that future European programmes in Wales continue to provide support to build capacity and enable the growth of existing research teams and clusters in our universities with an increased focus on working with companies and transferring technology, and the creation of new centres of research excellence for the benefit of the regional economy. Given that some two thirds of productivity growth is generated through innovation⁴ this must clearly be a priority given the productivity gap in Wales. As such, an emphasis in European programmes on research and innovation capacity is therefore appropriate, particularly through stimulating collaboration between researchers and industry. The current European programmes have demonstrated the potential of this approach and future programmes can usefully build on the advances which have begun to be made. A strong emphasis on the low carbon economy also provides a valuable strategic direction to the programmes, and encourages targeted research and innovation.

² European Commission Common Strategic Framework for Research and Innovation
http://ec.europa.eu/research/horizon2020/pdf/consultation-conference/summary_analysis.pdf

³ European Commission – Structural Funds Regulations
http://ec.europa.eu/regional_policy/information/legislation/index_en.cfm

⁴ Nesta Innovation Index 2009 <http://www.nesta.org.uk/library/documents/innovation-index.pdf>

Through engagement with companies and as educators, HEW appreciates the significance of investing in education, skills and lifelong learning for the future prosperity of Wales. It is crucial that the 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 a global economy.

5. University objectives

If one is to make the most effective use of European funding in Wales, the programme must be able to:

- Define, in a sufficient level of detail, areas of the Welsh economy in which investment of European funds will have the greatest potential for long term economic impact. This long term impact is essential. Wales does not need a 'fix it fund'. This requires a move away from a transactional style approach.
- Provide greater transparency and independence in project selection.
- Establish a process to bring forward proposals for project delivery and to assess, and if appropriate, approve these projects in a timely manner. An effective evaluation process, such as is used in centralised actions (for example, Framework Programmes), is vital to ensure the process is expeditious, rather than the iterative approach that is in place at present.
- Ensure proposers of the projects have the capability to deliver what they promise.
- Establish support structures to maximise the potential for successful delivery. The most useful support would be for the 'contractor' to provide to the 'sub-contractors' clear terms of engagement, to provide clarity in communication. Training for sponsors with common guidance will be critical to ensure consistency across the projects. A simplification of support mechanisms is required, particularly in cases where wider groups of stakeholders are involved, for example, a 'helpline' with a single point of contact throughout the application and delivery process would be useful.

6. Key themes

6a. Strategic definition

HEW believes the next round of Structural Funds should shift to a focus on interventions which will have long term beneficial outcomes for the Welsh economy. The transformation of the Welsh economy to a high value, full employment economy requires future programmes to move away from current approaches centred on predominantly transactional outputs towards more transformational strategies.

Universities in Wales recognise the importance of utilising the HE sector, in combination with European Structural Funds, to assist in the development of sustainable and advanced high tech businesses. These would contribute to the economic regeneration generally and more particularly, would counter disadvantages resulting from the current economic situation,

decreasing energy costs along with promoting better, cleaner and more efficient industries. A strategic approach across all EU programmes in Wales which embraces 'smart specialisation' and better aligns with different EU funding programmes, including *Horizon 2020*, could help the future prosperity of Wales. To secure transformational change in the economy would also require the promotion and support of strategic projects which combine to develop centres of excellence in Wales, which would have the credibility to attract mobile investment and form the basis of an internationally recognised knowledge economy.

HEW notes the range of economic research and data available for strategic definition in this context, but its fitness for purpose in defining key areas for intervention may not be robust. The data available at the start of the current programme was limited. Clarity about the focus of future programmes is key, and if the focus is on supporting a long term economic programme built on a knowledge based economy, there will be clear potential synergies with, for example, the Framework Programmes. If a more transactional approach is pursued, the synergies which support a programme will be less easy to foresee. It should be noted a great deal of investment is being made in the evaluation of current programmes and projects, and these should be referenced in defining key areas of intervention. HEW notes the integration of European funding streams may be difficult to achieve due to the stringent and prescriptive operating regulations of the different programmes. However, it is not to say that capacity built within a Convergence project could not then be utilised at a later date within another programme project, for example.

Some of the current projects and interventions under the Convergence Programme are of a value and a scale that could be considered as part of the strategic landscape. This is particularly true of the HE / Further Education (FE) collaborative schemes (Knowledge Economy Skills Scholarships (KESS), Access to Masters, Foundation Degrees and Work Based Learning), which are pan-Wales. In addition, there are some smaller, very successful project which could be considered part of the strategic landscape in their contribution to economic regeneration and their work to develop the competitive ability of SMEs in the region.

HEW notes that the Strategic Frameworks (SFs) assist Project Sponsors to frame their proposals. However, the creation of SFs is time-consuming for WEFO and the relevant Welsh Government departments, and caused a backlog at the beginning of the 2007-13 Convergence Programme. Without SFs being finalised at the start of the next programme, Project Sponsors may struggle to develop their proposals in a timely manner. HEW would recommend an early issue of these documents to ensure momentum is maintained.

HEW believes sustainability of investment should be clarified at project application stage and a greater, more in depth analysis of the exit strategies should be undertaken to ensure projects will be sustainable at the closure stage.

6b. Project selection

To achieve the longer term aims in Wales, HEW believes that future programmes should support the EU's strategy of promoting smart, sustainable and inclusive growth and concentrate on four key areas:

- Enhancing innovation capacity in Wales through investing in research capabilities, knowledge exchange, and the exploitation of new ideas;
- Contributing to the development of Welsh human capital and skills;
- Promoting enterprise, business development and growth through productivity enhancement; and
- Improving social equality through regeneration and cultural development.

These are the key areas identified in the *Connecting Universities to Regional Growth: A Practical Guide*⁵ publication, which outlines the key role of universities in developing regional economies and is endorsed by the European Commission.

HEW believes using information on projects from the previous programmes to determine the 'characteristics' of a successful project will depend on the focus of the new programmes. Using the existing programmes as a starting point for a strategy based on 'smart specialisation' will be more difficult than if a longer view is taken. HEW does not believe that some projects should be 'more equal than others' through a 'presumption to approve' mechanism. There must be a transparent evaluation process which involves external representatives. The approach should not be too prescriptive, and projects should be given the opportunity to be innovative whilst addressing the criteria set out in the appropriate SF.

HEW does not consider the current application procedure and eligibility assessment to be as effective as possible. Whilst it is considered necessary to weed out unsuitable proposals at an early stage, the Project Idea Form (PIF) has not served a useful purpose. The Expression of Interest (EOI) is not suitably structured to mirror the questions which are considered at the Business Plan stage. It would be more suitable for the EOI to be a 'mini-version' of the Business Plan, with the appropriate headings. HEW believes the project selection process should be streamlined, or additional staff resource committed to it, to avoid lengthy delays in project approval. Funds should be allocated wisely and swiftly.

6c. Project delivery

HEW believes future programmes should seek to address the capacity to generate knowledge, the capacity to absorb this knowledge, the capacity to exploit knowledge, and crucially, the leadership capacity required to manage this process amongst firms, in knowledge institutions and in the public sector. In terms of approach, HEW does not believe there should be a different emphasis in East Wales to West Wales and the Valleys. The overarching challenge is similar. The three areas have deeply integrated economies and future European programmes should recognise this integration, in so far as EU programming

⁵ European Commission Connecting Universities to Regional Growth: A Practical Guide
http://ec.europa.eu/regional_policy/sources/docgener/presenta/universities2011/universities2011_en.pdf

rules allow it. Current projects, such as the Low Carbon Research Institute⁶, demonstrate the potential offered through pan-Wales collaboration to develop globally competitive centres of innovation. Collaborative, cross-programme activities which overcome the artificial divides of programme boundaries, wherever possible, should be encouraged. This should be reflected in the scale of resources being dedicated to research and development (R&D) and innovation, SME competitiveness and the low carbon economy. Significantly more than 50% of programme funds should be dedicated to these three themes in future programmes for West Wales and the Valleys.

Appropriate support structures must be put in place to maximise the potential for successful project delivery. The most useful support would be for the 'contractor' (WEFO) to provide the 'sub-contractors' (sponsors / deliverers) clear terms of engagement and to avoid the 'one contact says one thing, and another says something else' situation, which can make delivery difficult, and the engagement of the private sector very difficult. Training for sponsors with common guidance is crucial, and consistency is vital throughout the project. Simplification of support mechanisms for projects is essential, particularly if a wider group of stakeholders is involved. Training on compliance issues and delivery requirements (for example, monitoring and evaluation) should be made more widely available during the application process, to ensure projects are designed to be compliant, rather than projects being adjusted to fit. The latter option introduces an unnecessary level of risk to project sponsors.

HEW believes eligibility to become a project sponsor or deliverer should be based on a clear set of criteria, which identifies the requirements of each role. Additional to this, the aspect of a 'track record' of the sponsor and deliverer should be illustrated in the proposal as an evaluation criterion, and not as an eligibility criterion. An organisation's ability to adequately manage structural funding should, however, be part of the eligibility assessment at application stage.

It is important that projects which are approved commence in a timely fashion. Having an appropriate and well-resourced evaluation process should help, rather than a longer iterative journey to approval, which was a feature of the current programme. It is important to ensure that new programmes 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 process through a gateway mechanism, if this means an independent evaluation which will inform approval.

HEW notes the largely successful collaboration between universities and SMEs could be further developed and increased if certain challenges can be resolved. For example, SMEs are not necessarily set up to easily and readily provide the necessary paperwork in the correct format as required by European Structural Fund projects. This can discourage some

⁶ Low Carbon Research Institute <http://www.lcri.org.uk/>

SMEs from engaging with projects, or can be a time consuming and labour intensive challenge to resolve. In addition, some SMEs are involved in more than one Structural Fund project, and are required to provide 'original' documentation for each project. Duplication of documents can be time consuming and frustrating for businesses. These challenges could be alleviated through:

- Reviewing the requirements for SMEs to duplicate paperwork;
- Reviewing processes to reduce the administrative burden of business to a minimum;
- Ensuring project sponsors provide clear guidance to business on Structural Fund requirements, perhaps as part of a readily updateable 'project initiation toolkit' to be provided by WEFO.

Universities have also reported the challenges of running projects with businesses. Business pressures can impact on attendance at project meetings. Ultimately, this can result in businesses disengaging with the partnership altogether, and affect future engagement in multi-sector collaborations. These challenges can be alleviated by ensuring clarity in partnership requirements, effective communications schedules, and regular contact to share information and build trust.

6d. Monitoring and audit

Accurate data collection is essential for monitoring and auditing purposes. This collection should be undertaken using comprehensive and user friendly databases with checks for compliance and eligibility together with sufficient information for continued monitoring of the progress and success of the project. Adequate training and support is required at project level to ensure project staff have sufficient knowledge to comply with monitoring and audit requirements. In order to improve the quality of data in the next round of funding, an 'inception pack' containing all necessary guidelines, regulations, paperwork and databases set to the specific project requirements could be adopted.

Ongoing support and advice should be provided through a central resource at WEFO to ensure any changes and updates to WEFO guidance is applied accurately. There is currently limited resources within WEFO and this would prove challenging. It is important to capture the skills and experiences from the Convergence to ensure the knowledge and experience is made available in the implementation of the next round of funding.

6e. Claims and payments

HEW notes that procurement can be problematic in projects with multiple partners, with differing procurement policies.

Uncertainties early in the 2007-2013 Programme on match-funding contributed to delays in rolling out the programme. Universities have also reported long-standing queries about the four overhead rates for European Structural Funds and the European Regional Development Fund within the HE sector. The result was different HE projects and project partners

producing different rates and accounting calculations. Clear written guidance from WEFO on overheads prior to the commencement of the next programme would be welcomed, together with appropriate document formats or templates, for example, timesheets.

To minimise the administrative burden on sponsors, delivery partners and grant recipients, the claim deadline should be extended. For wider collaborative projects, the lead sponsor must currently collate claims from project partners and consolidate these within 21 days of the period end. If the next programme will continue to promote larger, multi-partner projects, the recommendation would be to allow a full month to prepare the claim for submission.

It would be useful to assign one contact within WEFO for claims and audit communication whenever possible to ensure that there is consistency in the advice provided and also to ensure there is an understanding of the project itself. This applies at each stage of the project life-cycle from development through closure.

7. Conclusion

The 2014-20 Programme 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 the capacity for research and innovation, 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 the strategic projects approach, the long-term impacts of future European programmes will be worthwhile.

The HE sector in Wales is pleased to have had the opportunity to respond to this review. Universities are significant players in fundamental aspects of the European programmes in Wales and welcomes opportunities to share experience and to be involved in further discussions on the development of these programmes.

HIGHER EDUCATION WALES
January 2013