

Finance Committee – National Assembly for Wales

A call for evidence – the Effectiveness of European Structural Funding in Wales

Submission by Higher Education 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. 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 sector.

HEW has consulted with representatives from those HEIs who are currently engaged in delivering Structural Funds projects and we are grateful for their input into this paper.

2. Context for submission

Whilst we recognise that this is an inquiry into the current approach to Structural Funds which is centred on predominantly transactional outputs, the higher education sector is keen to emphasise that the next round of Structural Funds should shift to a focus on interventions which will have long term and beneficial outcomes for the Welsh economy.

Our recent paper to the Enterprise and Business Committee in advance of our oral evidence on the proposed regulations for the next programming period, on 11 January 2012, stated that *'the transformation of the Welsh economy from a low value, low employment economy to a high value, full employment economy can only be secured through a new 'whole system' approach to research and development (R&D), knowledge exchange and innovation'*.

We also recommended to the Committee that the next round of Structural Funds in Wales prioritises actions which have the potential to have a transformational social and economic impact on Wales in generating jobs at all levels and sustainable growth. We are determined that universities will play a full role in realising the regional innovation outcomes (based on smart specialisation) which will deliver this transformational change.

The Commission's proposals for a more strategic approach, which will allow, for example, an activity to be funded through different EU funding streams (in particular through exploiting the synergies between the Structural Funds and Horizon2020) offer us the opportunity to do so. We look forward to discussing with the Committee how our experiences in the current programme will enable us to prepare for the next round of European Structural Fund programmes.

Inquiry Questions

1. To what extent do you consider the Convergence and Regional Competitiveness and Employment Programmes in Wales for the 2007-13 period, to have achieved – or to be achieving – their intended objectives?

It is important to recognise that the economic downturn has proved to be very challenging for the labour market in Wales. Further, due to the delays in the implementation of the Operational Programmes, it is difficult to make an overall assessment of whether the programmes are achieving their objectives for Wales at this stage.

Despite this however, a number of activities are contributing to the targets. For example, by January 2011, just under 10,000 jobs had been created against an ERDF programme target of 33,200¹. Additionally, the Committee may wish to note our understanding that Welsh ERDF revenue projects operate under a more challenging definition of 'jobs created' than in other European Convergence regions. Currently the Welsh definition states that a job created must have no finite duration, whilst other regions classify any job with a duration of one year or more, as a job created. It may be helpful to consider this in light of changes to the labour market since the start of the new programmes.

Specifically, there is evidence that the HE sector is delivering against the range of programme objectives (low carbon, skills, employability, SME competitiveness and so on) and supporting the economic and social regeneration of Convergence areas.

A small sample of projects include:

- The four flagship education and training programmes: Knowledge Economy Skills Scholarships (KESS), Access To Masters (ATM), Foundation Degrees and Work Based Learning, all of which deliver significant higher level skills and workforce adaptability across the Welsh economy. The programmes provide demand led training focused on employability and aim to develop ongoing relationships with the private sector.
- Centre of Excellence for Mobile Applications and Services project, which provides a unique platform for SMEs to create, develop and test innovative, new 'i-services' prior to market launch.
- The SEREN project which delivers new and innovative ground engineering technologies in the areas of Ground Source Heat, Underground Coal Gasification and Carbon Sequestration, with the view to exploring Wales' unique coal-rich geography through low-carbon applications.
- The Anaerobic Digestion Centre project which addresses the knowledge-base and technical barriers to the implementation of Anaerobic Digestion in Wales and directly reduces Wales' carbon footprint.

¹ <http://wefo.wales.gov.uk/programmes/progress/?skip=1&lang=en>

- The WISE Network which enables almost 120 companies to collaborate with universities on research and development activities. This will be translated into new jobs being created in these companies as well as the development of new patents which should lead to the launch of new products and services.
- The Institute of Life Science developed in two phases, provides a state-of-the-art R&D environment including laboratory, informatics, and clinical facilities, together with fully integrated business incubation units.

2. Do you consider the various projects funded by European Structural funds in Wales to be delivering value for money?

Universities in Wales are well placed to manage Structural Funds efficiently. Strengths include:

- Experience in areas such as knowledge transfer which can be exploited to support economic development in the region more widely.
- Experience of delivering other EU funded projects, with associated Europe-wide networks.
- Success in collaborating on EU Structural Funds where expertise across universities has been pooled.
- Success in designing and implementing projects which provide permanent additions to the knowledge economy infrastructure of Wales.

Value for money requires focussing as much spend as possible on project activity. Project leadership from experienced organisations operating effectively in the field of activity is most likely to achieve this.

3. Do you have any concerns around the use of the Targeted Match Fund? Do you have any concerns around the use of Welsh Government departmental expenditure, as match funding? What impact do you believe public sector cuts have had (and may have) on the availability of public sector match funding?

The HE sector has made use of the Targeted Match Fund and this source of funding is a valuable resource which has had an impact in getting projects off the ground. For example, the four-year transnational project Enalgae (Energetic Algae) is a strategic initiative funded by the INTERREG IVB North West Europe Programme and backed with £629,000 from the Targeted Match Fund through the Welsh Government, together with a range of co-sponsors.

A more transparent and clear process for accessing the Targeted Match Fund would be welcomed, however. More information, at an earlier stage, would enable the universities to respond more effectively to the opportunities which this fund could provide. Match funding

should be open to all stakeholders in Wales and the procedures should be fair, providing equal access to all.

Match funding is likely to become even more difficult due to the reduction in financial resources within the public sector. In this context, it will be even more important that match funding opportunities support the projects which will have the greatest effect on the Welsh economy. It is also important that possible sources of match funding from outside Wales are not excluded due to decisions from the managing authority regarding Programme scope - the effective exclusion of resources from Research Council projects highlights this issue.

Universities also have capacity to attract match funding from the private sector.

4. How effectively do you believe the Welsh European Funding Office (WEFO) have monitored and evaluated the impact of projects?

Individual project managers hold regular meetings with WEFO which provide an opportunity for the project managers to highlight issues and concerns. This is extremely positive and universities are appreciative of WEFO's helpful approach with advice and assistance where appropriate. However, WEFO has been affected by a high turnover of staff for periods. There are reports that this has affected the building of mutual understanding and consistency of advice in some cases but it is difficult to see how this could be avoided within the budgetary constraints on WEFO. The provision of more categorical guidance on occasion would aid delivery and help share risk between delivery organisations and the managing authority.

It is not possible at this stage to comment on whether WEFO has effectively monitored and evaluated the impact of projects since the publication of evaluation reports will come later in the cycle. The introduction of widespread project-led evaluation under the current programme would be welcomed. However, clearer and more prescriptive guidance would be needed to ensure project sponsors use individual project evaluations in an appropriate and consistent way. Effective evaluation can inform effective delivery.

WEFO could adopt a more risk-based approach to reflect the capacity of small organisations to monitor and manage projects compared with large scale and financially stable organisations.

5. Do you have any concerns regarding the sustainability beyond 2013 of the activities and outputs delivered through projects financed during the current round of Structural Funds?

The nature of many universities projects, focused on expanding individuals abilities and business performance and pump-priming capacity enhancements, ensure outcome benefits beyond the term of any programme. Investment in high-level skills through ESF should lead

to better employment opportunities for innovative individuals to contribute to the economy. HEI work based learning projects and projects that focus on developing and delivering Foundation Degrees aimed at employees, should ensure that participants have the skills and knowledge to stay in employment. ERDF projects have enabled businesses to innovate.

The university sector is one of few indigenous generators of substantive research in Wales and plays a key role in transforming the results of this research into innovative commercial products and services, promoting entrepreneurship, business development and growth. The combination of ERDF in infrastructure, including research infrastructure, with a highly skilled workforce, should have a positive long term impact on the Welsh economy.

It should be noted, however, that the updated Article 55 guidance places uncertainty on the sustainability of some of the sector's ERDF projects. We understand that projects which have the potential to generate revenue will risk repaying ERDF grant up to five years after the project has ended, and this is an area of risk for many projects. Should the project generate revenue, our understanding is that this is calculated as net revenue up to five years after the end date of the project. WEFO introduced new updated Article 55 guidance in September 2011. We will have to wait five years post project to gather an accurate picture of revenue generated by the project. The University sector does not have experience of running projects under Article 55 to date but is uneasy because future revenue often underpins sustainability.

6. What is your own experience of accessing European Structural Funding?

Universities' experience of delivering Structural Fund objectives has been largely positive. There have been challenges in setting up complex, multi partner projects. The three stage PIF, EOI and Business Plan procedure for example has led to a longer process of project approval and implementation. The application process for SEACAMS, involving Aberystwyth, Bangor and Swansea universities took up to three years from the submission of the initial Project Information Form to the start of the project.

However, the sector has learnt from this experience and is keen to build upon the expertise that it has gained during the current period. It is well placed to take an active lead in preparing for the next programming period. Future Operational Programmes will need to comply with the Europe2020 strategy thus placing universities in a leading position for delivering on research, innovation, training and education, lifelong learning and knowledge transfer.

7. Is the private sector in Wales sufficiently engaged in accessing European Structural Funding?

The private sector, and in particular SMEs, do not always have the expertise or the resource capacity to engage with the rules and regulations of the Structural Funds and they often rely

on the universities to support their engagement with the programmes. This can be seen in the implementation, under ESF, of the four flagship education and training programmes: KESS, ATM, FD and WBL. They have been very successful in engaging with the private sector across the priority sectors in Wales because the forms are consistent and advice is on hand to support involvement. Whilst these are more specifically related to up-skilling staff within their workforces, ERDF projects have also been successful in engaging companies to improve business processes and invest more in R&D. For example, the Advanced Sustainable Manufacturing Technologicals (ASTUTE) project involves 8 universities and is working with more than 300 SMEs.

The increased concerns over 'state aid' have made it very difficult to engage private sector companies in projects as joint sponsors, i.e. full project partners contributing match funding. Public procurement has been recognised in Wales as the 'state aid compliant' way of bringing companies into projects. Inevitably, this adds another layer of administrative burden on the lead sponsors of projects and creates delays. Furthermore, 'procurement with match funding contribution' limits the number of companies interested in bidding to the project. As a result, even full EU OJ procurement exercises have been run with just one realistic bidder coming forward. The models for private sector engagement in projects therefore need to be reviewed for future programmes but will probably be easier to manage within larger strategic projects.

Nevertheless, the private sector has benefited through the procurement process under the ERDF and their increased engagement will be important in future during this difficult economic climate. The HE sector is keen to obtain feedback from the private sector on their experiences of working with universities. We recognise that this is a central role for HE and we would want to ensure that we develop our capacity and working methods to engage in the most effective way possible with the private sector in future.

8. In 2009, WEFO negotiated an increase in programme intervention rates with the European Commission for the two ERDF and the ESF Convergence Programmes. In its July 2010 report, the Enterprise and Learning Committee noted that the South West Regional Development Agency had negotiated higher intervention rates with the European Commission. Is Wales making the most effective use of increased programme intervention rates?

The sector welcomed the increase in intervention rates after 2009 which had a significant impact on the engagement of universities with the Structural Funds. Low intervention rates can make it more difficult to ensure additionality and risk elevating match funding levels to the status of dominating criterion for Structural Funding support. Increasing the intervention rate up to 70% for some strategic priorities, made the application process much more attractive. WEFO will need to reconsider whether these rates can be maintained during the next round when match funding will become even more difficult to secure during this period of economic uncertainty. Higher intervention rates will result in fewer projects being

approved. The sector will be keen to ensure that these projects will have a transformational effect on the economy.

HIGHER EDUCATION WALES

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