Written evidence submitted by Professor Colin Riordan, Vice-Chancellor, Cardiff University (SPF0020)

Overview

i. Cardiff University is an ambitious and innovative university with a bold and strategic vision. Our world-leading research was ranked 5th for quality and 2nd for impact amongst UK universities in the 2014 Research Excellence Framework. We provide an educationally outstanding experience for our students. Driven by creativity and curiosity, we strive to fulfil our social, cultural and economic obligations to Cardiff, Wales, the UK and wider world.

ii. Regional economic performance and social cohesion are factors crucial to the UK and Wales's post-Brexit success and in emerging and rebuilding from the COVID-19 pandemic. It will be essential to address *causes* of disparities in prosperity and development (such as skills, innovation and the quality of place-based institutions) and not just focus on symptoms (such as unemployment).

iii. The Shared Prosperity Fund comes at a crucial time for the Welsh economy and for Welsh universities. It offers a unique, generational opportunity to create a programme of investment that is *designed and delivered in Wales*, for Wales. The Fund is not and should not be simply about replacing the European Structural and Investment Funds (ESIF).

iv. We believe a Shared Prosperity Fund must:

- Be 'devolved by design'
- Match current regional investment funding
- Allocate funding to Wales appropriately via a needs-based system
- Ring-fence funds to build research and innovation capacity
- Take a wider view of development, learning from the Well-being of Future Generations (Wales) Act 2015 and recognising universities' civic mission
- Run on a long-term basis (seven years as a minimum).

v. We also share the Russell Group's call for UK government investment in five key priority areas that will, in turn, underpin wider social and economic transformation over the coming decades:

- Develop a new approach to deliver place-based economic growth
- Turbocharge investment in fundamental research
- Launch strategic science-based missions for high-risk, high-return
- Strengthen the talent pipeline for high-level skills
- Maximise our opportunities for global collaboration.[1]

Consultation questions

1. How effective have existing arrangements for the management of European Structural Funds been?

1.1 Wales has over a decade's experience in managing and administering European funding. As we exit the transition period and enter a new phase, we believe it would be unwise to disregard existing arrangements wholesale but wish to outline some of the administrative challenges associated with securing and managing ESIF in Wales.

1.2 The existing arrangements have been adequate from a narrow, transactional point of view, i.e. money spent on time and in a manner that complied with all the auditing conventions and no fraud cases. However, the arrangements have been limiting from a transformational point of view, i.e. where one hoped that ESIF would have helped to effect more tangible structural change.

1.3 To implement successfully regional development policies and investments, due consideration should be given to internal governance, as further outlined in the work of the Organisation for Economic Co-

[1] Russell Group, *Budget 2020 representation* (2020) <https://russellgroup.ac.uk/media/5843/russell-group-submission-to-budget-2020-final.pdf> (Accessed: 17 April 2020).

operation and Development (OECD) work for the Welsh Government on regional working and international best practice.[2] Lessons should also be learned from previous regional funding schemes, particularly that multi-annual programming offers long term vision and breeds investor confidence.

1.4 In section 3 we refer to disparities in the distribution of ESIF across programme areas within Wales. These spatial inequalities were dictated by EU regulations and the delivery of programmes by the Welsh European Funding Office has, quite appropriately, ensured that the use of Funds in Wales complied with EU requirements. Subject to this restriction, management of Funds in Wales has been effective and efficient.

2. What impact have Structural Funds had on the Welsh economy?

2.1 According to the Welsh Government, projects supported by the 2007-13 EU programmes in Wales helped 72,700 people into work; 234,300 people to gain qualifications and created 11,925 businesses and 36,970 jobs.[3]

2.2 According to the Welsh European Funding office, the 2014–20 programmes have:

- Created 16,424 jobs and 2,463 enterprises
- Assisted 10,190 enterprises and 224,084 participants
- Supported 22,164 participants into employment
- Helped 86,145 participants gain qualifications and another 4,642 partcipaints into education and training.[4]

2.3 Structural Funds have played a significant and valuable role in enhancing activities delivered by higher education institutions, most notably in investments in research and innovation infrastructures, in research training and skills, and in increasing knowledge and technology transfer between academia and business communities.

2.4 Wales and its universities have benefited from ESIF, providing vital investment for projects and infrastructure that contribute towards economic and social growth in Wales. ESIF are targeted towards the poorest EU areas, which included parts of Wales, and have enabled universities to be key players in projects crucial to regional development. As a specific example, the final evaluation of ASTUTE (2013–19) concluded that their work created economic impact in excess of £200m in West Wales and the Valleys, showing that for each £1 invested a return of over £8 of economic impact was achieved.[5]

2.5 Most of Wales' ESIF funding (over £1.1 billion) is delivered via the European Regional Development Fund (ERDF), which includes an EU grant budget of £334m to support research and innovation. The ERDF has been instrumental in supporting several of our major initiatives, including our state-of-the-art Brain Imaging Centre, participation in the region's compound semiconductor cluster, our leadership of the Supercomputing Wales facilities, and capacity building investments through Sêr Cymru (further below). Detailed impact evaluations from these separate investments have not yet been undertaken, reflecting the long lead-in time for investments of this kind to deliver sustained impacts. This 'patient' return model is particularly significant for investments which focus on capacity building around talent, skills, networks and infrastructures that strengthen conditions for high-quality translational research, collaboration and inward investment.

2.6 The Learned Society of Wales recently worked with the British Academy, the Royal Society of Edinburgh and the Royal Irish Academy to outline the role European funds have played in supporting

[2] Welsh Government, *OECD Multi-Level Governance Review: enhancing institutional capacity for regional governance and public investment in Wales* (2019) <https://gov.wales/oecd-multi-level-governance-review-enhancing-institutional-capacity-for-regional-governance-and-public-investment-in-wales-html#section-30968> (Accessed: 15 April 2020).
[3] Welsh Government, *Wales hits target for maximising £1.8bn EU Funds* (2017) <https://gov.wales/wales-hits-target-maximising-ps18bn-eu-funds> (Accessed: 17 April 2020).
[4] Welsh Government, *EU Structural Funds Programme 2014 to 2020: key indicator achievements* (2020) <https://gov.wales/eu-structural-funds-programme-2014-2020-key-indicator-achievements> (Accessed: 16 April 2020).
[5] G. Thomas, *What are the next steps for regional investment in Wales?* (2018) <https://seneddresearch.blog/2018/10/11/what-are-the-next-steps-for-regional-investment-in-wales/> (Accessed: 17 April 2020).

research and innovation. Although England accounts for the largest share of ERDF spending at €816 million (55%), Wales attracts a significant €388m (26%) (Scotland is on €158m [11%] and Northern Ireland at €113m [8%]). Crucially, this means that the "contribution is €125 per capita for Wales – five times the UK average at €23 per capita and almost ten times the figure for England at €15 per capita".[6] *The removal of these funds will disproportionately affect Wales.*

2.7 An example of these complex interdependencies is the Sêr Cymru programme, which aims to strengthen the capacity of Wales's leading research groups via talent attraction and training. The second phase of the programme launched in 2015 invested £60m in research and innovation in Wales by supporting more than 130 fellowships, Early Career Research and 'Recapturing Research Talent' Fellowships, plus 10 five-year 'Rising Star' Fellowships and six Research Chair packages. The ERDF provided roughly 41% of the overall funding with remaining funds from EU's Horizon 2020 Framework Programme Marie Skłodowska-Curie COFUND scheme (11%), the Welsh Government (12%), the Higher Education Funding Council for Wales (6%) and c.30% in match contributions from universities. Importantly, this highlights how universities must be considered as *partners in design as well as delivery of programmes*, in all cases making substantial investments in the funding and delivery of programmes.

2.8 Welsh universities have also received over £85m of European Social Funding since 2014, which is an investment in people with a focus on improving employment and education opportunities—the most substantial investment here being in PhD and Masters support across all universities in Wales under programmes including Knowledge Economy Skills Scholarships. It also helps disadvantaged people at risk of poverty or social exclusion and the higher education sector has contributed here through programmes like GoWales, which supports students from disadvantaged backgrounds into work.

2.9 Since 2000, Welsh universities have received over £500m from the Wales European Structural Funds programme.[7] *Cardiff University has received over £84m of Structural Funds awards in the EU Programme period 2014-2020, against an estimated spend of £154m, with a further £1.8m award at application stage.*

2.10 All of this funding has been important in keeping Welsh universities competitive and in providing essential support for collaborative working with local, regional and Wales-wide business communities on translational research, knowledge exchange and innovation support and skills development. This support has been particularly vital in Wales due to the phasing out of knowledge exchange funding in Wales from 2014 and the lack of Higher Education Innovation Funding (HEIF) as compared to England.[8] Structural Funds programmes (both those that support higher education-led activities directly and those that fund collaboration between universities and business via Welsh Government Smart Programmes) have helped maintain some baseline level of university-business collaboration and investments in key industry-facing research infrastructures that would otherwise have been impossible at scale.

2.11 We know that Welsh expenditure on research and development (R&D) trails other UK nations and regions by some way. Indeed, European sources of R&D funding are disproportionately important in Wales and their loss will be sharply felt. Within the UK, R&D spending is dominated by London and the East and South East of England. In 2018, the UK's total expenditure on R&D was £37.1 billion.[9] ONS figures for the regional and sectoral distribution are not yet available; in lieu of the newer data, the 2017 figures are reproduced below (aspects of the North East and North West are combined in the data source).[10]

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[6] Learned Society of Wales et al, *The European Structural and Investment Funds – Contribution to UK research and innovation* (2020) <https://www.thebritishacademy.ac.uk/sites/default/files/The-European-Structural-and-Investment-Funds-Contribution-to-UK-research-and-innovation.pdf> (Accessed: 16 April 2020).

[7] Universities Wales and Welsh Higher Education Brussels, *Response to inquiry by Children, Young People and Education Committee on the Impact of Brexit on Higher and Further Education* (2018) <https://uniswales.ac.uk/media/Senedd-CYPE-inquiry-into-Brexit-June-2018.pdf> (Accessed: 8 April 2020).

[8] G. Reid, *Review of Government Funded Research and Innovation in Wales* (2018) <https://gov.wales/sites/default/files/publications/2019-04/review-of-government-funded-research-and-innovation-reid-review.pdf> (Accessed: 17 April 2020).

[9] ONS, *Gross domestic expenditure on research and development, UK: 2018* (2019) <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/researchanddevelopmentexpenditure/bulletins/ukgrossdomesticexpenditureonresearchanddevelopment/2018> (Accessed: 8 April 2020).

[10] ONS, *Gross domestic expenditure on research and development, UK: 2017* (2018)

Table 1: Regional spending on R&D

Region/nation	Gov. (£m)	HE (£m)	Private (£m)	Non-profit (£m)	Total (£m)
North East	216	240	384	42	707
North West		691	2,174		3,040
Yorkshire and Humberside	121	579	938	3	1,641
East Midlands	74	341	1,521	2	1,938
West Midlands	71	416	2,467	11	2,965
East of England	212	819	4,677	230	5,938
London	447	1,982	2,796	323	5,548
South East	611	1,174	4,860	85	6,730
South West	242	424	1,652	16	2,334
Wales	16	269	457	-	744
Scotland	171	1,072	1,247	39	2,529
Northern Ireland	6	166	512	-	695
Total	*2,196*	*8,173*	*23,685*	*754*	*34,808*

The 2017 R&D spend within the HE sector was £8.17 billion, with a heavy weighting towards the 'golden triangle' of London and Oxbridge whose regions accounted for £3.98 billion (48.6% of the higher education total). This compares to Wales' total spend of £269m (3.3% of the HE total). If we consider R&D spending in the private sector, London and the South East and East of England accounted for £12.33 billion (40% of the private sector total), with Wales on the lowest spend at £457m (1.9% of the private sector total). Public investment in R&D helps to leverage significant private sector investment. UK government analysis indicates an additional £1 of public spending in R&D gives rise to an increase in private R&D funding of £1.36 over a ten-year period.[11]

2.12 It stands to reason that R&D spending is dominated by areas of critical mass, an approach which highlights the concepts of 'smart specialisation' embedded in the 2014–20 ERDF programmes, and the principles embedded in government Science and Innovation Audits. If we want to address UK imbalances however, we should *boost R&D across all nations and regions*. If investment agglomerates in the 'golden triangle', it will continue to attract evermore capital from the rest of the UK. Replacements to ESIF which have had a historic focus on smart, sustainable and inclusive growth (supported by research and innovation) must maintain a focus on excellence within and across nations/regions, but also work distinctively alongside Industrial Strategy investments made on a competitive UK-wide level which focus on productivity through place-based excellence (e.g. Strength in Places Funds).

2.13 The Shared Prosperity Fund should redress proactively the UK's imbalances; the UK2070 Commission has stated that London "has a 50% higher level of productivity than any other nation or region in the UK" and that this gap "can be expected to grow with over 50% of future job growth going to London

<https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/researchanddevelopmentexpenditure/bulletins/ukgrossdomesticexpenditureonresearchanddevelopment/2017> (Accessed: 8 April 2020).

[11] Economic insight, *What is the relationship between public and private investment in science, research and innovation?: A report commissioned by the Department for Business, Innovation and Skills* (2015) <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/438763/bis-15-340-relationship-between-public-and-private-investment-in-R-D.pdf> (Accessed: 17 April 2020).

and the wider south east, if we do nothing".[12] Productivity matters because it links directly to long-term economic growth and real wages; the ONS estimates that around a fifth of the rise in productivity between 1994 and 2019 can be attributed to improvements in the quality of the workforce, especially those with higher education qualifications. This means more graduates in the labour market has led to an increase in productivity (or at the very least has helped to maintain levels of productivity while the UK has faced other significant pressures).[13]

2.14 Again, this emphasises the vital role universities have within Wales, both regionally and internationally, in attracting, training, and retaining skills talent to a place. Universities are also ideally placed to deliver programmes that combine R&I and skills and workforce development. New funding arrangements should not perpetuate different artificial boundaries between funds, geographies or priorities and strategic objectives. Combining investments and activities that can deliver both high technology R&I and address local-level skills needs, universities can be pivotal in "local innovation ecosystems" for both the knowledge and foundational economy[14].

2.15 It is also important to consider imbalances not found in statistics but in decision-making processes. It is not just that major investment, growth, wages and employment are greater in the golden triangle, but that these regions are where a great deal of the decisions regarding the UK's economy are taken. As an example, UK Research and Innovation (UKRI) distributes UK government funding for research and innovation, with its board responsible for "providing strategic direction and oversight, promoting the importance of UK science and innovation and supporting the senior leadership team".[15] However, 14 of the 16 board members come from organisations based in London and, until recently, there is was no representative from outside the golden triangle able to shape directly the strategic direction of UKRI.

3. What lessons should be drawn from previous rounds of European Structural Funds in Wales?

3.1 It is essential to maintain multi-annual programming that offers long term vision and breeds investor confidence, particularly if greater participation by the private sector in the administrative and co-investment of funds, and greater use of repayable financial instruments is intended.

3.2 To implement successfully regional policy and investment, due consideration should be given to internal governance. We would urge the Committee to consider the Welsh Government's forthcoming review of multi-level governance, which is being led by the OECD.[16] Evidence emerging from this review suggests that:

- Greater constructive challenge is required in the way individual ESIF projects were designed and delivered, including on support for regional eco-systems where the demand side (e.g. firms) have parity of esteem with supply side (e.g. universities);
- More emphasis should be placed on resourcing, skills and on-going support for project management, implementation and delivery, noting the absence of effective central support systems to help struggling projects particularly in their early stages.

3.3 Two key challenges associated with the current ERDF research and innovation programmes are:

- the challenge of forging synergies with other research and innovation initiatives at a Welsh, national and European level (e.g. HEFCW, Government innovation programmes, Research Council funding, or Horizon 2020) due to different timescales, application approaches,

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[12] UK2070 Commission, *The First Report of the UK2070 Commission: Fairer and Stronger – Rebalancing the UK Economy* (2019) <https://drive.google.com/file/d/1DaPlONpLXwxS1lE2kLu3aQVkOQEmFLwB/view> (Accessed: 8 April 2020).
[13] D. Holland et al, *BIS Research Paper No. 110: The relationship between graduates and economic growth across countries* (2013) <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/229492/bis-13-858-relationship-between-graduates-and-economic-growth-across-countries.pdf> (Accessed: 17 April 2020).
[14] K. Morgan, *Re-inventing regional policy: time for a new development model* (2017) <http://blogs.cardiff.ac.uk/brexit/2017/05/05/re-inventing-regional-policy-time-for-a-new-development-model/> (Accessed: 17 April 2020).
[15] UK Research and Innovation, *Board Members* <https://www.ukri.org/about-us/governance-and-structure/uk-research-and-innovation-board/board-members/> (Accessed: 8 April 2020).
[16] Welsh Government, *OECD Multi-Level Governance Review: enhancing institutional capacity for regional governance and public investment in Wales*.

- budgeting and cost basis, and on-going changes in external funding landscapes against relatively static ERDF programme investments; and
- governance and administrative systems that exemplify micro-management and 'gold plating' audit requirements.

3.4 Universities Wales has worked with Welsh higher education institutions to compile a list of lessons learned from the management of ESIF. It produced a list of challenges faced and several helpful remedies to those problems.[17] We would urge the committee to consult the full list, but the headline findings were that there was too much micro-management of ESIF, with excessive and unnecessary audit requirements and unfair financial reporting. The proposed remedies included:

- Longer-term reporting with a greater risk appetite
- Annual expenditure and income statements with less frequent verification on claims (currently audited at 18–24-month intervals)
- Move to a full economic costing basis
- Increase grant rates to 80% in line with other UK funding models
- Consider how 'state aid' legislation constrains higher education activities.

3.5 We would also like the Committee to consider that the Welsh Government has taken a progressive approach to the integration of cross-cutting themes into ESIF in Wales.[18] In the 2014–20 programmes, these themes are:

- Equal opportunities and gender mainstreaming
- Sustainable development
- Tackling poverty and social exclusion

The impact of this approach still needs be assessed, but the work to integrate these themes is characteristic of a distinctive Welsh approach. It is important to recognise that Welsh universities already operate within a devolved framework for regional development and have been doing so for some time; to introduce a competing development narrative with additional metrics would be counterproductive.

4. What should be the priorities and objectives of the Shared Prosperity Fund and what, if any, improvements are needed to the current European funding system?

4.1 We recognise the wide-ranging challenges and reframing of economic, social and wellbeing priorities that will arise as a result of COVID-19. We maintain that the Fund must focus on medium- and long-term interventions that stabilise capacity, support rehabilitation and build sustainable resilience.

4.2 We have outlined above how vital it is to invest in research, innovation, knowledge exchange and skills delivery that supports place-based, inclusive and smart sustainable growth. We advocate strongly that the Shared Prosperity Fund retains a focus on all these areas, with enough flexibility to combine activities in single co-investments, where warranted, in order to maximise opportunities to leverage and combine with other funding and minimise administrative overheads.

4.3 Welsh Government's current proposals for a Framework for Regional Investment include four priorities, each with identified strategic objectives, some of which are directed at research, innovation or higher-level skills. These include:

- Productive and competitive businesses
- Reducing the factors that lead to income inequality
- Supporting the transition to a zero-carbon economy

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[17] See Annex 2 of Universities Wales, *Universities Wales response to Welsh Government's consultation 'Regional Investment in Wales after Brexit'* (2018) <https://uniswales.ac.uk/media/Unis-Wales-response-Regional-investment-in-Wales-after-Brexit.pdf> (Accessed: 16 April 2019).

[18] Welsh Government, *Consultation: A Framework for Regional Investment in Wales* (2020) <https://gov.wales/sites/default/files/consultations/2020-02/framework-consultation-document.pdf> (Accessed: 16 April 2020).

- Healthier, fairer, more sustainable communities

4.4 We note that in on-going development of EU Cohesion policy principles, research and innovation will not be a separate strand but will be integrated within each of the five principles. Consideration could be given to how this approach might apply to developing the Fund, rather than implicitly 'ring-fencing' research under a handful of stand-alone 'strategic objectives' across separate priorities.

4.5 We would also call for explicit recognition of digitalisation, data and artificial intelligence as 'enabling' priorities and highlight a need to consider how the findings and recommendations of Professor Phil Brown's review of digital for the Welsh Government are considered alongside investment priorities.[19]

4.6 We would also encourage the Fund to consider how best to factor in productivity and growth, and to ask whether traditional measurements—gross domestic product (GDP) and gross value added (GVA)—should be the dominant targets. Such measures have potentially taken too much attention. GVA has been described as "a poor proxy for regional welfare [that] hides key income and developmental elements".[20] Indeed, the fixation on GDP might be part of a 'growth-at-all-costs' mentality that increasingly draws capital to the core region(s).[21] We understand wider measures of inclusive growth and well-being are under consideration. We would highlight the need to balance assessing progress at strategic scale versus change at a local level. Our recent work with the Cardiff Capital Region on developing a suite of reports that provide a broad baseline for the 'State of the Region' is an example of the potential for deeper assessments of progress/change in a place.

4.7 We would also urge metrics developed for the Fund to consider closer alignment to data and reporting systems already in existence, including (specific to research and innovation) the UK-wide Higher Education Business-Collaboration Index, HEFCW measures and systems like ResearchFish (used by UKRI and many major funders).

4.8 Previous periods of Structural Funds have dictated R&D sectors or areas of focus, and ERDF 'output indicators' focus predominantly on 'technological innovation' (products and processes) with private sector organisations. To that end, we would welcome a more fluid recognition particularly in R&D facing priorities on the significant role of social and/or public innovation, rebalancing a "fixation on technical innovation for productivity gain with social innovation to meet basic needs".[22]

4.9 At a strategic level we suggest that the Fund moves beyond a project-led responsive mode and consider the ability to support challenge-led programmes of activity combining innovation, application and applied research alongside skills delivery. Good practice examples of challenge-led approaches can be found in the US ARPA model and the Joint Programme Initiatives of the EU.

4.10 In line with more recent Welsh Government policy and regional investment frameworks, including the Economic Action Plan, we would also encourage a stronger focus on the flexibility to work across the foundational economy, which refers to "the activities which provide the essential goods and services for everyday life, regardless of the social status of consumers" such as "infrastructures; utilities; food processing; retailing and distribution; and health, education and welfare".[23] Our most deprived areas are most dependent on the foundational economy, but it is important to note that foundational services are "consumed by all citizens regardless of income" across all UK regions and nations.[24] It is estimated that 35–50% of the UK's workforce is employed in the foundational economy directly.[25] It is also

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[19] P. Brown, *Wales 4.0: Delivering Economic Transformation for a Better Future of Work* (2019) <https://gov.wales/sites/default/files/publications/2019-09/delivering-economic-transformation-for-a-better-future-of-work.pdf> (Accessed: 17 April 2020).
[20] C. Jones, 'On Capital, Space and the World System: A Response to Ron Martin', *Territory, Politics, Governance*, 3(3) (2015), 273-293 (279).
[21] A. Quick, *Forget GDP – these are the numbers that matter* (London: New Economics Foundation, 2017) <https://neweconomics.org/2017/01/forget-gdp-numbers-matter> (Accessed: 8 April 2020).
[22] E. Engelen et al, 'The grounded city: from competitivity to the foundational economy', *Cambridge Journal of Regions, Economy and Society*, 10(3) (2017), 407-423 (420).
[23] J. Miller, *The foundational economy*, 2017 <https://seneddresearch.blog/2017/03/02/the-foundational-economy/> (Accessed: 18 April 2019).
[24] A. Leaver and K. Williams, 'After the 30-year experiment: The future of the 'foundational economy'', *Juncture*, 21(3) (2014), 215-221 (220).
[25] J. Earle, *What next for the foundational economy in Wales?*, 2019, <https://www.iwa.wales/click/2019/02/what-next-for-the-foundational-

estimated that 47.8% of Wales's employment is in the foundational economy, with a further 18.5% in 'overlooked' economic sectors.[26]

4.11 Foundational employment is also largely in "activities which are typically sheltered from international competition", making it important for fostering regional resilience.[27] [28] The role of universities and colleges as education and skills providers (and more broadly, as providers of networks and infrastructures supporting exchange of knowledge across all areas of the foundational economy) is vital.

4.12 We do not want to deter investment in high-growth economic sectors; we collaborate with several international companies on major initiatives, including our Compound Semiconductor Centre with IQE and our Airbus Centre of Excellence in Cyber Security Analytics. Working with international market leaders holds great potential for Wales, but inward investment is made possible because of the mobility of capital and can leave just as easily as it arrives (Wales has experienced this on many occasions).

4.13 This is not an either/or option between high-tech and foundational/public sectors. An important aspect is high-value embedded organisations, including universities, and by 'value' we would encourage a definition wider than GDP/GVA measurement. We would welcome and support efforts to enhance a 'Mittelstand' of medium-sized enterprises in Wales. Mittelstand enterprises are known to be "closely embedded in their regions" with "pronounced sense of responsibility towards people and places".[29]

4.14 Cardiff University's Welsh Economy Research Unit produced a 2019 report on the Mittelstand for the Development Bank of Wales.[30] Reviewing available data it estimated that there were between 1,300 and 2,200 medium-sized firms in Wales in 2018. It argued that Wales's medium-sized businesses "recorded relatively low rates of growth in enterprise count and share during the past five years, providing some evidence of low rates of business evolution into medium-sized firms".[31]

4.15 The report also noted that methodological differences make direct comparisons difficult but was able to draw on Eurostat data. It observed that "in terms of medium-sized firm share of business count, employment and output, Wales performs relatively well compared to the UK as a whole, and in comparison to many other regions", but that the "UK lags its counterparts in several EU countries, in terms of medium-sized firms' share in enterprise count, employment, and turnover".[32]

4.16 Growing small firms into medium-sized enterprises is important if Wales is to embed the value created by development schemes. Medium-sized enterprises that are both locally embedded (headquartered in struggling regions) and globally engaged (often part of wider supply chains), can negate the following:

- SMEs can face precarious growth and survival, or may decide to relocate as part of their growth
- Larger multinationals can offshore key functions or completely relocate.

4.17 Ultimately, we would refer to question 3. The Welsh Government is already developing a regional development framework and is doing so with the Well-being of Future Generations (Wales) Act 2015 at its core. This unique legislation is indicative of an approach that takes a wider view of development than that reflected solely by GDP/GVA. This could prove instructive for other parts of the UK, but that should be a decision that other nations and regions arrive at through devolved decision-making processes.

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economy-in-wales/> (Accessed: 12 April 2019).

[26] J. Earle et al, 'Foundational economy and foundational politics', *Welsh Economic Review*, 26(0) (2018), 38-45 (40).

[27] J. Froud et al, *Foundational Economy: The Infrastructure of Everyday Life* (Manchester: Manchester University Press, 2018), p. 23.

[28] E. Engelen et al, 'The grounded city: from competitivity to the foundational economy', p. 411.

[29] A. Pahnke and F. Welter, 'The German Mittelstand: antithesis to Silicon Valley entrepreneurship?', *Small Business Economics*, 52(2) (2019), 345-358 (351).

[30] N. Kapitsinis, M. Munday and A. Roberts, *Medium-sized business and Welsh business structure* (2019), <https://developmentbank.wales/sites/default/files/2019-11/EIW%20Quarterly%20Bespoke%20report%20English.pdf> (Accessed: 9 April 2020).

[31] Ibid, p. 3.

[32] Ibid, p. 20.

5. What level of funding should Wales receive, and how should this be calculated moving forward?

5.1 Any funding formula should ensure Wales is no worse off under the new regime than its predecessor.

5.2 The Barnett formula should not be used for determining Wales's funding from the Shared Prosperity Fund. Allocated funds according to population size would fail to deliver the support that the most disadvantaged communities need. The Institute for Fiscal Studies (IFS) has similarly argued against the use of Barnett for allocating Shared Prosperity funding as it "it takes no account of differences in population growth, or differences in the initial levels of funding".[33] The IFS also modelled the use of Barnett and showed its inappropriateness for the Shared Prosperity Fund, finding that from "€226 per person in Wales in 2020, Wales would see EU replacement funding falling in real-terms falls over time: to €206 per person in 2030 and €196 per person in 2040 before it stabilises and in the very final year of the projection (2050) starts to slowly increase again".[34]

5.3 It is worth noting that Welsh universities will play a key role for the duration and aftermath of the COVID-19 pandemic, accounting as they do for 36.2% of the nation's research and development expenditure (for comparison, higher education accounts for 24% of the UK's overall R&D).[35] [36] If Welsh universities are to play that role, they will need to be able to utilise the Shared Prosperity Fund at levels comparable with the funding that would have arrived as part of the EU's 2021–27 cohesion policy period. As has been noted by the Wales Fiscal Analysis team at the University's Wales Governance Centre, the Barnett formula will not be adequate for directing funds to Wales for COVID-19 responses. They state that "Wales has a significantly older population with much higher levels of ill-health and disabilities", meaning that "Barnett – a population-based rather than a needs-based funding formula – could[…] fall short of the Chancellor's 'whatever it takes' ambitions" with respect to COVID-19.[37]

5.4 Currently, structural funds are pre-allocated (i.e. non-competitive) and are targeted at Nomenclature of Territorial Units for Statistics (NUTS) 2 regions within EU member states based upon GDP per capita. Allocations for 2014–20 are based on the three categories of NUTS 2 region:

- Less developed (≤75% EU average GDP per capita)
- Transition (75–90% of EU average GDP per capita)
- More developed (≥90% EU average GDP per capita)

Under this system, 'West Wales and the Valleys' was one of only two UK NUTS 2 regions categorised as 'less developed' for 2014–20, meaning the greatest level of structural funding. Similarly, the 'East Wales' NUTS 2 region was categorised as 'transition' and had a different level of funds. As noted by the Institute for Public Policy Research, more NUTS 2 regions in the UK would have been categorised as less developed post-2020—South Yorkshire, Tees Valley and Durham, and Lincolnshire—with the newly formed Southern Scotland likely accessing funds in the post-2026 round.[38]

5.5 If the GDP per capita system were carried across directly into the Shared Prosperity Fund (with UK averages supplanting EU averages), West Wales and the Valleys would still be categorised as less developed—according to ONS estimates for 2018, the GDP per capita for West Wales and the Valleys was 66% of the UK average.[39] In fact, Wales as an entire economic unit (NUTS 1) would meet the

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[33] N. Bird and D. Phillips, *Preparations for replacing EU funding for Wales: Response to the Finance Committee of the National Assembly of Wales's Call for Evidence* (2018) <https://www.ifs.org.uk/uploads/IFS%20Response%20to%20the%20Finance%20Committee%20of%20the%20National%20Assembly%20of%20Wales%E2%80%99s%20Call%20for%20Evidence.pdf> (Accessed: 20 April 2020).

[34] Ibid, p. 9.

[35] StatsWales, *Research and development expenditure in Wales by expenditure type and year* (2019) <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Research-and-Development/researchanddevelopmentexpenditureinwales-by-expendituretype-year> (Accessed: 20 April 2020).

[36] ONS, *Gross domestic expenditure on research and development, UK: 2018* (2020) <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/researchanddevelopmentexpenditure/bulletins/ukgrossdomesticexpenditureonresearchanddevelopment/2018> (Accessed: 20 April 2020).

[37] Wales Fiscal Analysis, *Covid-19 and the Welsh Government Budget: Update No.1* (2020) <https://www.cardiff.ac.uk/__data/assets/pdf_file/0005/2132654/COVID19_Welsh_Budget_FINAL.pdf> (Accessed: 21 April 2020).

[38] K. Henry and M. Morris, *Regional funding after Brexit: Opportunities or the UK's Shared Prosperity Fund* (2019) <https://www.ippr.org/files/2019-02/1551278444_regional-policy-post-brexitfeb19.pdf> (Accessed: 20 April 2020).

[39] ONS, *Regional gross domestic product all NUTS level regions* (2019)

threshold, with its GDP per capita currently standing at 74.6% of the UK average—NUTS 1 regions and nations, however, are too large for the above thresholds to be carried across effectively.[40]

5.6 It is worth noting that the UK has a higher GDP per capita than the EU. This means that we could see more NUTS 2 regions categorised as 'less developed' if the formula were repeated. Looking at 2018 data, eight regions would be 'less developed': West Wales and the Valleys; Southern Scotland; Tees Valley and Durham; Cornwall and the Isles of Scilly; South Yorkshire; Outer London - East and North East; Lincolnshire and Devon. In such a situation, we would advocate that the overall fund size and its allocation formula ensured Wales's funds were not 'diluted'.

5.7 We note a 2019 analysis from the Conference of Conference of Peripheral Maritime Regions, which identified that had the UK continued to be a member the EU it would have received a 22% increase in funding under 2021–27 cohesion policy funding period, due to worsening levels of regional disparity in the UK (including the West Wales and the Valleys region).[41]

5.8 We are concerned at one potential model that would see £743 lost per head in Wales, with London benefiting to the tune of £215 per head.[42] Clearly, that would be unacceptable. The UK government has indicated it will respect devolution in Scotland, Wales and Northern Ireland and engage the devolved administrations to ensure the Fund works for places across the UK. However, this is not the same as devolving the funds and responsibility for setting priorities to the devolved administrations. *We unequivocally advocate the latter approach*.

5.9 We support many of the recommendations in the 2018 report by Westminster's All-Party Parliamentary Group on Post-Brexit Funding for Nations, Regions and Local Areas, including:

- The annual budget for the UK Shared Prosperity Fund is no less, in real terms, than the EU and UK funding streams it replaces.
- The key objective of the new Fund should be to narrow differences in prosperity across the UK. Local partners [i.e. devolved administrations] should be given flexibility to define the types of projects on which the UK Shared Prosperity Fund is spent, so long as the activities remain consistent with the wider objectives of the Fund.
- The UK government should be encouraged to recognise that, within the framework of agreed guidelines, the allocation of the funding to local areas within the devolved nations should be a devolved matter.
- Within the framework of the agreed guidelines, the UK government should transfer responsibility for the detailed design and delivery of the relevant parts of the UK Shared Prosperity Fund to the devolved administrations and their partners.[43]

5.10 We also note that the Joseph Rowntree Foundation have argued that "as a matter of priority, the [UK] Government should commit to match the current level of EU Structural Fund spending with resources that are additional to existing local growth budgets, with a multi-year commitment to enable longer-term planning" and that the "precise methodology for allocating resources between the administrations of the UK should be negotiated in an open and transparent forum between the UK government and the devolved administrations."[44]

<https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/regionalgrossdomesticproductallnutslevelregions> (Accessed: 20 April 2020).

[40] ONS, *Regional economic activity by gross domestic product, UK: 1998 to 2018* (2019) <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/regionaleconomicactivitybygrossdomesticproductuk/1998to2018> (Accessed: 20 April 2020).

[41] Conference of Peripheral Maritime Regions, *UK entitled to €13bn regional funding if it remains in EU* (2019) <https://cpmr.org/wpdm-package/uk-allocation-for-cohesion-policy-for-post2020/?wpdmdl=20524&ind=1550570009760> (Accessed: 17 April 2020).

[42] Locality, *Communities in Charge: give people the power to prosper after Brexit* (2019) <https://locality.org.uk/wp-content/uploads/2019/06/Communities-in-Charge-Campaign-Report_FINAL_20190607.pdf> (Accessed: 20 June 2019).

[43] All-Party Parliamentary Group on Post-Brexit Funding for Nations, Regions and Local Areas, *Report of an initial inquiry into the UK Shared Prosperity Fund* (2018) <https://static1.squarespace.com/static/5bb636594d546e54df5807eb/t/5be96f8c88251b96c3329314/1542025102947/APPG+report+on+UKSPF.pdf> (Accessed: 10 April 2019).

[44] R. Tinker, *Designing a Shared Prosperity Fund* (York: Joseph Rowntree Foundation, 2018) <https://www.jrf.org.uk/report/designing-shared-prosperity-fund> (Accessed: 20 June 2019).

6. Should funding be ring-fenced on a nation or regional basis or should the fund be open to competitive tendering?

6.1 As above, we believe that funds should be ring-fenced on a national basis and that levels should be based according to the need of the population. We believe that the UK government should delegate replacement funds, including responsibility for setting its priorities, to the devolved administrations. Whatever the future arrangements, it is essential that there is good and consistent communication between the UK and Welsh Governments.

6.2 Whilst competitive approaches to distribution of funds provide positive benefits in promoting stronger high-quality scrutiny and constructive challenge, competitive bidding between areas of the UK would not be compatible with the aim of the Fund to rebalance the UK economy or 'level-up' regions. A needs-based, transparent funding formula is required across the four nations to ring-fence allocations and ensure all regions have the *capacity* to compete. Funding within allocations should be competitively targeted to areas most likely to help the area realise its full economic potential and productivity. This is the basic selection principle of current EU funding— competitive funding within an agreed area-based allocation.

6.3 We also share the Russell Group's call for investment in universities as 'hubs' or anchor organisations to support place-based economic growth:

> "Speed up and simplify investment decision-making locally and regionally by funding the UK's research-intensive universities to act as hubs for a substantial package of research, development and innovation funding. Rather than specifying exactly how this funding should be spent, universities should be required to set out individual plans based on local/regional needs and expertise. For example, funds could be used to: enhance innovation capacity and skills, address inequalities, develop patient capital funds, act as a one stop shop for FDI, create regional innovation districts, or build on centres of genuinely world class research to create global advantage for the UK in multiple locations spread across the country. This funding should be made available to universities in all of our nations, not just the English regions, to act as a cohesive social and economic force for the UK as a whole while also delivering local transformation."[45]

7. What timescale should be adopted for each funding round? How should responsibility for funding and administering the fund be divided between UK and devolved governments?

7.1 Funds must be multi-annual and long-term—seven years as a minimum, although ideally longer. We would advocate a multi-year programme, as is currently the case, a minimum of seven years aligned to EU programming periods, extending to n+3 providing a ten-year window of expenditure. As noted above, this is particularly important for securing investor confidence from both the private and public sectors, and for building towards the medium and long-term impacts sought with these types of funds.

7.2 An annual funding model would be hugely counter-productive. With an unprecedented economic shock coming from the COVID-19 coronavirus, there will be a proliferation of short-term public interventions in the next two years. Shared Prosperity funding needs to provide some medium- and long-term direction, creating stability and consistency that survives annual budgets and political cycles.

7.3 Regional funding from the EU has flowed through the devolved institutions for as long as it has been available, and the principle of devolution in Wales has received backing via two public referenda in 1997 and 2011. We believe that replacement regional funds should continue to be devolved post-Brexit and that this is in keeping with the spirit of devolution as determined by the Welsh public at the ballot box.

[45] Russell Group, *Russell Group submission to the 2020 Budget.*

8. What role could, or should, local government and, where applicable, city or growth deals play in relation to the fund?

8.1 We supported the development of the Cardiff Capital Region City Deal and continue to back its efforts. We also wish for national devolution to be recognised as *vitally important*. As above, the UK government must engage proactively with the Welsh Government to ensure no loss of funding of decision-making power for Wales.

8.2 It is important to reiterate that effective place-based strategies require co-operation at the policy level.[46] The Committee should take into account that the UK has a number of competing devolution narratives.[47] Within Wales there is a potential proliferation of regional investment frameworks, priorities and funds through City and Growth Deals, Valleys Funds, Welsh Government funding, and the regionalisation agendas of Welsh and Local Government. We would be concerned if the Shared Prosperity Fund (or any initiative) added unnecessary duplication and bureaucracy and created or exacerbated tensions.

9. Are there any implications for state aid rules?

9.1 It seems likely that the UK's future arrangements for the equivalent of state aid legislation will be a key point in the post-Brexit negotiations. The EU sees state aid as a critical element of its 'level playing field' of rules and standards that are likely form part of any trade deal. The EU is, therefore, likely to insist that the UK adheres closely to its state aid rules. The UK government for its part wishes to see greater flexibility in its ability to intervene in failing businesses and industries and is likely to cite the UK's historical record on state aid compliance, which is superior to that of countries such as Germany and France.

9.2 Funding devolved to Wales would need to operate in a manner consistent with the way in which Shared Prosperity Funds are managed elsewhere in the UK and in compliance with any trade deal concluded with the EU. Universities in Wales are experienced in managing R&D activities conducted in collaboration with external partners in full compliance with EU state aid regulations. We are confident that the sector in Wales would adapt quickly to any future equivalent legislation.

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[46] G. Bristow, *Mobilising the Potential of the Great Western Force* (7 July 2017) <http://www.iwa.wales/click/2017/04/mobilising-potential-great-western-force/> (Accessed: 10 July 2019).
[47] D. Waite and K. Morgan, 'City Deals in the polycentric state: The spaces and politics of Metrophilia in the UK', *European Urban and Regional Studies*, 0(0) (2018), 1-19.