

Universities Scotland Main Committee

Date of meeting
Paper Number
Agenda Item Number

UK Industrial Strategy / UK Shared Prosperity Fund: realising opportunities

Summary

1. The UK Government Industrial Strategy was published on 27 November 2017 – this paper updates Principals on work to support Scotland's success in accessing this resource with a particular focus on the Industrial Strategy Challenge Fund (ISCF)
2. An additional commitment in the Industrial Strategy was to consult on the UK Shared Prosperity Fund (SPF), the [likely](#) domestic successor to EU Structural and Investment Funds. This seeks members' views on principles for the sector's position on SPF to inform discussion with UK and Scottish Government and our formal response to the consultation.

Recommendations

3. Members are asked to:
 - **Note** progress with work on the Industrial Strategy, particularly the increased willingness to engage from Scottish stakeholders, providing better opportunities to engage with waves 2 and 3 of the Industrial Strategy Challenge Fund.
 - **Discuss** and **agree** board principles for the upcoming consultation on the UK Shared Prosperity Fund, particularly on devolution and the level of change to the current ESIF approach.

Industrial Strategy

4. The Industrial Strategy White Paper sets the aspiration that by 2030 the UK is the world's most innovative economy and the best place to start and grow a business.
5. The Strategy is framed in terms of four Grand Challenge areas:
 - putting the UK at the forefront of the **artificial intelligence and data** revolution
 - maximising the advantages for UK industry from the global shift to **clean growth**
 - being a world leader in shaping the **future of mobility**
 - harnessing the power of innovation to help meet the needs of an **ageing society**
6. These Grand Challenges are 'an invitation to business, academia and civil society to work together to innovate and develop new technologies and industries in areas of strategic importance to our country' and will be a portfolio of 'risky initiatives'.



7. There is a commitment to increase R&D investment to 2.4% of GDP by 2027^[LS1] and the Industrial Strategy Challenge Fund (ISCF) is a key part of this commitment.
8. The second wave of ISCF has launched; there are six Challenges alongside two Pioneer challenges (to build industry engagement and readiness for future funding) worth up to £725M. These are:
 - Transforming construction, up to £170M
 - Prospering from the energy revolution (focussed on smart systems)
 - Transforming food production (use of precision technology to make food production efficient and sustainable)
 - Audience of the future, up to £33M (immersive technology)
 - Data to early diagnostics, and precision medicine, up to £210M
 - Healthy aging
 - Next generation services, up to £20M (pioneer funding to help service industries identify how the application of technology – AI and data analytics – can transform operations)
 - Quantum technology (pioneer funding)
9. An expressions of interest process will launch in Q1 2018 to articulate potential wave 3 challenges.
10. There is ongoing work to develop sector deals, many of the completed deals will include ISCF challenges
11. It is also important to note that the Strategy has committed to a real-terms 20% increase across all councils of UKRI from 2015/16 – 2019/20, the development of a new competitive Strategic Fund (built on the ‘common fund’ idea set out in the Nurse Review) and £300M investment over three years in recruiting world-class talent to the UK, [which is particularly relevant, given the implications of Brexit.](#)

Scottish Government and Industrial Strategy

12. Following the National Economic Forum meeting in December there has been increased activity and focus on the Industrial Strategy from Scottish Government and agencies.
13. Earlier this month Scottish Government convened the relevant agencies, with Universities Scotland, to discuss what needs to be done to support Scotland’s success. The outcome of this was twofold: agreement on the need to raise awareness and aspiration for the opportunities for wave 2 of ISCF and agreement to share information on strengths both to inform the development of wave 3 challenges and to identify and pursue a small number of significant-scale (‘white space’) opportunities.
14. US officers will provide relevant information promptly and will continue to push for concerted and prompt action from the relevant agencies to support the success of Scottish industry and universities from the Industrial Strategy opportunities.

Universities Scotland’s work

15. We have highlighted the significant opportunity presented by the Industrial Strategy to Scottish Government and its agencies and in mid-2017 offered a reflection on sector strengths matched to the then known themes. Through the Enterprise and Skills Review and the Strategic Futures Group we have continued to highlight the significant opportunity and the need for concerted action in Scotland.
16. We have put the Industrial Strategy at the heart of the agenda of the business-universities leaders’ forum. Its next meeting will be held on 23 January and members will receive an oral update on discussions as Main Committee. The agenda focuses business on recommendations for maximising Scottish participation in wave 2 challenges;



discussing an approach to identify 'white space' opportunities; and a new model for international region-region interactions.

17. This group is chaired by Bob Keiller, chair of Scottish Enterprise and member of the Enterprise and Skills Strategic Board. While Mr Keiller is working in a personal capacity this provides a good link into the relevant agencies.

Upcoming consultation on UK Shared Prosperity Fund

18. The UK Shared Prosperity Fund is [likely to be](#) the post-Brexit replacement for structural funding. A consultation on the aims and operation of the Fund is being developed and members' views are sought to inform our discussions with officials and our formal response.

Background

19. The EU Structural and Investment Funds (ESIF) are the EU's main [financial assistance for regional economic development and financing route to investment](#) in 'smart, sustainable and inclusive' growth in member states. Scottish Government is in Managing Authority for [the 2 ESIF programmes – ERDF and](#) ESF, which are:
 - European Regional Development Fund (ERDF) aims to strengthen economic and social cohesion by correcting imbalances between regions; and
 - European Social Fund (ESF) aims to help people improve their lives by learning new skills and finding better jobs.
20. The UK Government has committed to replacing ESIF with the UK Shared Prosperity Fund and will consult on the development of this new approach in 2018.

ESIF in Scotland¹

21. Scotland currently receives 11% of UK ESIF. From 2014-2020 Scottish Government received €476M from ERDF and €465 from ESF. These funds are being used to:
 - Increase digital connectivity
 - Improve employment opportunities
 - Make Scotland more competitive in business
 - Ensure our cities are healthy and sustainable
 - Build a sustainable, low-carbon Scotland
 - Tackle poverty and inequality
22. These funds are split between two programme areas: Highlands and Islands (receiving ~20% of funding) and Lowlands and Uplands Scotland (essentially rest of Scotland). Currently SFC receive £40M and Scottish Enterprise receive £19M and act as Lead Partners. The 2014-2020 targets for the funds include:
 - More than doubling the number of SMEs exporting
 - Increasing employment in Scotland's low carbon sector by 5%
 - More than doubling the number of Youth Employment Initiative participants achieving positive outcomes 6 months after leaving
23. Looking specifically at spending for research and innovation under ERDF (2014-20) in Scotland (£157.6M, ~1/3 of ERDF funding) the planned spend is:

¹ Sources for this section are:

[Scottish Government](#) website for ESIF

[SPICe briefing](#) on EU funding, 7 November 2016

[The role of EU funding in UK research and innovation](#), Technopolis report for National Academies, 10 May 2017



- Generic productive investment in SMEs (€16.5M)
- Tech transfer and university enterprise expertise cooperation primarily benefitting SMEs (€47M)
- R&I processes in SMES (including voucher schemes, process, design, service and social innovation (€48M)
- R&I infrastructure, processes, technology transfer and cooperation in enterprises focusing on the low carbon economy and on resilience to climate change (€46.1M)

24. [INTERREG\[LS2\]](#) also falls under ERDF—UHI is involved with a number of INTERREG projects.

UK Shared Prosperity Fund

25. UK Government, [in its Manifesto \(May 2017\)](#) has described the Shared Prosperity fund as the future, post-Brexit replacement for Structural Funds: *We will use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations. The money that is spent will help deliver sustainable, inclusive growth based on our modern industrial strategy. We will consult widely on the design of the fund, including with the devolved administrations, local authorities, businesses and public bodies. The UK Shared Prosperity Fund will be cheap to administer, low in bureaucracy and targeted where it is needed most.*

A key issue: devolution

26. At a recent conference Keith Brown MSP has stated that the replacement for Structural Funds should provide ‘no less than the current level of funding, and [give Scotland] the autonomy over the funding to align in with Scottish priorities’.²
27. There is a risk that any UK-level domestic allocation method could reduce the level of funding that reaches Scotland (and other current significant beneficiaries of ESIF) and/or specific parts of Scotland.
28. We understand that there is potential for UKRI to oversee some portion of SPF. While details are not yet known, the new Strength in Places Fund (£115M) aims to drive clusters, ‘demonstrate a strong impact on local productivity’ and ‘enhance collaboration between universities, research collaborations, businesses, local government, LEPs in England and relevant agencies in devolved nations’ and we understand there is scope for this to increase if successful.
29. The High Level Stakeholder Working Group on EU exit, universities, research and innovation had an initial, and confidential, discussion the future of Structural Funds, [however- it should be noted that in Scotland, historically, Structural Funds have invested in many other aspects of HE provision as well as research and innovation, such as learning and teaching infrastructure, access to HE provision, development and delivery of additional courses.](#)
30. We would particularly invite comments on whether the position of the sector in Scotland is that the SPF should be devolved.

A Scottish sector position

31. Set out below are a number of principles and aims for the Fund that would constitute a Scottish sector position. They reflect discussions with members and stakeholders including Scottish Government. What are members’ views on these?
32. Please note it is not currently clear whether SPF intends to encompass other EU funds such as the CAP. As a principle CAP should incentivise innovation e.g. uptake of new technologies and working with academic partners.

² <http://www.publicfinance.co.uk/news/2017/12/call-act-now-replace-scotlands-eu-funds>, report of conference on 18 December 2017 (assessed 10 January 2018)



33. Devolution

- Given Scottish Government are the Managing Authority for ESIF we would expect SG to manage the SPF within an agreed UK framework (similar to the process used for ESIF under the UK Partnership Agreement).
- We would expect SG to utilise the Fund to support local priorities, including allowing a more granular approach to locality (cf. two programme areas in ESIF) to support communities across Scotland.
- We would expect to see funds devolved at a regional level (across the UK) but within a framework that enables cross-region collaboration where appropriate.

34. Other principles

- UK Shared Prosperity Fund (SPF) should continue to support regional economic and social cohesion
- SPF must have a long-term horizon and continue to focus on capacity building – it should be assessed appropriately to enable a broader contribution to economic growth rather than a tight view of short-term return on investment
- The allocation of SPF should be based on need
- The total SPF should ring-fenced at UK level, allocated on need and managed regionally
- ESIF operates under the EU's [key principles](#) for Cohesion Policy of concentration (i.e. concentrate on resource, effort and spending), additionally (i.e. not replacing spending/'core' work), partnership and multiannual programming (i.e. not projects but programmes). These should be maintained in the SPF.
- We see HEIs as important to supporting regional growth in their role as 'anchor' institutions as rooted in the local community, acting as a focal point for networks, producing highly skilled graduates and generating and exchanging knowledge. HEIs are therefore important contributors to the debate on SPF.

35. A continuing focus on issues such as supporting SMEs and place-based growth

- We agree that there should be a continued focus on supporting SMEs and that SPF can add value in programmes to support SMEs to innovate and internationalise.
- Use of the Fund should take a place-based approach to economic development. This is consistent with the Enterprise & Skills Review and the Industrial Strategy.
- Use of the Fund should be flexible to allow interaction with other international (ideally including the EU Framework Programme 9), UK and Scottish funding streams.
- The SPF should support long-term capacity building which should include attraction, development and retention of high-quality talent, including researchers and undergraduates. We do not see this Fund as short-term or challenge-focussed as this risk duplication with other domestic schemes.
- The Fund should be used to build capacity in lower performing areas with a view to escalating towards large-scale investment (e.g. Industrial Strategy Challenge Funds). Cohesion/synergies between other research and innovation schemes and SPF should be a priority.
- There may be an opportunity to utilise the EU's '[Seal of Excellence](#)' approach. This is used to connect projects from Horizon2020 to ERDF funding and could be carried across to support high quality projects from UK/Scottish competitive funds to receive place-based support.
- We would anticipate that the Fund assess projects on the basis of impact i.e. a relatively modest investment or one with absolutely modest outcomes could have a significant impact in certain places. The Industrial Strategy reference to a 'rebalancing toolkit' could be a useful tool to inform the use of the Fund

36. Transition post Brexit

- The current system (ESIF) should continue until the end of the programme (2020, with spend likely to 2023) and the new programme begin as of 2020. Efforts should be made to avoid funding gaps between the close of ESIF and opening of SPF.

37. Accountability

- Governance systems and reporting should be proportionate and risk-based
- Where possible the reporting burden should be minimised
- Currently all ESIF funding is matched and allocated via Lead Partners. For certain projects it may be sensible to allow institutions such as HEIs to act as Lead Partners, with appropriate risk-based reporting and auditing. HEIs have the infrastructure to secure and manage match-funding.



38. Initial feedback from RKEC at their meeting on 19 December 2017 was supportive of these principles, however, there was a desire to consider how greater ambition could be expressed. These principles promote consistency with current ESIF rather than far-reaching changes. We would welcome views as to the appetite for significant changes that could expand ambition for the aims and impact of the Fund.

UUK work on SPF

39. At a recent discussion with UUK the officers highlighted the following:

- Ensuring a transition period from Structural Funds to the new domestic scheme is a priority
- The UUK team is currently investigating potential alignment between SPF and other funds such as HEIF and Local Growth Funds (an England-only capital fund managed by LEPs³)
- UUK is in discussion with Universities Alliance and GuildHE to test ideas and identify areas of alignment on key principles of the fund e.g. the role of HEIs in SPR, value of high level skills and innovation and the need for transition
- From UK Government, the work on SPF is being led by officials in the City and Local Growth Unit (DCLG and BEIS) and a consultation is likely to be published in Q2 2018. As of the most recent discussions between UUK and those officials (late 2017) their work was at a very early stage. It is worth noting that the City and Local Growth Unit is technically England-only.

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³ <https://www.nelep.co.uk/funding/local-growth-funding/>

