

Cynulliad Cenedlaethol Cymru | National Assembly for Wales
Y Pwyllgor Materion Allanol a Deddfwriaeth Ychwanegol | External Affairs and Additional Legislation Committee
Y goblygiadau i Gymru wrth i Brydain adael yr Undeb Ewropeaidd| Implications for Wales of Britain exiting the European Union
IOB 09
Ymateb gan M-SParc
Evidence from M-SParc

Introduction: Menai Science Park is in the course of development as the first dedicated Science Park in Wales. Our aim is to provide a platform for research based projects in science and technology to establish innovative and successful business by providing state of the art accommodation and the provision of dedicated business support. Whilst Brexit will not affect us in the short term-we have assurances that our funding is secure until 2020-we have concerns about access some of our research projects will have to high level research funding post Brexit. In that context, we are happy to provide evidence in response to the following question posed by the Committee:

What should be the top priority for Wales in advance of the UK Government triggering Article 50 (which starts the formal process of exiting the EU)?

We will confine our evidence to this part of the Inquiry, given that we lack the necessary expertise to respond to the second part of the inquiry's remit on the legal issues you have identified.

Research Funding: The obvious place to start our evidence is to consider the implications for research projects that might be attracted to the science park of the lack of access to European Research funds after 2020. In the short term, it appears that research projects will retain access to funding both through the Structural Funds programme and the European Union's Horizon 2020 programme (H2020). The UK Treasury have given some assurances that even if the UK exits the EU prior to 2020, funding will continue up to the end of the 2014-20 round of funding
<https://www.gov.uk/government/news/chancellor-philip-hammond-guarantees-eu-funding-beyond-date-uk-leaves-the-eu>
<https://www.gov.uk/government/news/further-certainty-on-eu-funding-for-hundreds-of-british-projects>

The two conditions attached to Treasury funding are that projects must:-

- Provide good value for money: and
- Be in line with domestic strategic priorities.

The assumption must be is that projects in Wales should be in line with Welsh Government strategic priorities. In the field of research, it is expected projects should fit within the Grand Challenge Areas identified in Innovation Wales, Science for Wales and the Economic Prioritisation Framework.

Within the Structural Fund ERDF Programme for Wales there is a budget allocation for Research & Development (R&D) for the period 2014-20. €388m (27.5% of ERDF funds) has been allocated for Research and Innovation, with matching funds (primarily from the Welsh Government) of €167.5m, making a total investment (including funds from other sources) of €630m. Interreg Funding (Ireland-Wales Territorial Co-operation) has allocated €32m funding under priority 1 for knowledge transfer. This of course excludes the funding for R&D from Innovate UK and UK Research Councils (RCUK). However, once projects have secured R&D funding under Structural Funds, the expectation is that

those projects would use that funding, and the research thereby generated to staircase into Innovate UK, RCUK and H2020 funding. The Welsh Government has stated that it wishes to Wales capture a higher proportion of research funding from these sources. Wales currently receives less than 2% of Innovate UK funding which would be around £10m. In 2014-15, Wales received £66m in RCUK funding <http://www.rcuk.ac.uk/about/aboutrcs/research-funding-across-the-uk/>.

From information which is in the public domain, in the table below we give an estimate of what the public sector spend on R&D is in Wales at the present time. We have taken information from the ERDF Operational Programmes, the Welsh Government budget for 2015-16 and the latest available figures for Innovate UK and RCUK. We have also taken an average figure across the 6 years of the Structural Fund programme, although actual spend is likely to be quite ‘lumpy’ across the period. Nevertheless, the table shows that Wales would lose more than a third of R&D spend if access to Structural Funds is lost post Brexit.

TABLE OF ANNUAL PUBLIC SECTOR SPEND ON R&D IN WALES

Source	Spend £m	Percentage
Average WWV &EW ERDF	56	35%
Average matching funds (WG & other sources)	24	15%
Innovate UK (2014-15)	10	6%
RCUK (2014-15)	66	41%
Average Interreg Priority 1	4.5	3%
Total (Note: Exchange rate £:€ 1:1.16 on 17.11.16)	160.5	100%

A number of assumptions need to be made about what Wales might expect from ERDF funding post 2020 if we remained a member of the EU. Should WWV qualify for the highest rate of funding post 2020, then the amount Wales might receive would depend on the overall size of the EU budget, the proportion allocated to Research by the EU and the priorities on spend outlined in the next Operational Programme. However, given the EU’s commitment to R&D&I it is likely that Wales would be expected to devote at least a similar proportion of funding for R&D as under the current round.

If Wales did not qualify for the highest level of funding post 2020, as a result of a significant increase in GDP in WWV, then it is likely that we would receive ‘transitional support’ under an arrangement made in 1999 for regions which no longer qualified for Objective 1 after 2005. It is difficult to quantify the amount of funding that would be provided under this provision for the period 2021-2027, but it is reasonable to assume that the total funding would be around 50% of the amount received in 2014-2020.

Whatever the position post 2020, by leaving the EU Wales would lose a significant amount of funding for R&D as we would not qualify for Structural Funds and Interreg Funding whatever the GDP levels in WWV. This could be as much as an average of £60.5m per annum (using current figures) or £30.25m under transitional arrangements. It would be extremely difficult for this sum to be replaced from the Welsh Block given that the current total allocation for Economic Development is £215m, and given that pressures on the Welsh Block are likely to increase in the next few years.

Apart from the loss of Structural Funds and Interreg Funds, on leaving the EU Wales’ HEIs, Research Bodies and companies will lose access to EU Research Funds. These are funds which have to be applied for directly to the EU (such as H2020), whereas the decisions on the distribution of Structural Funds are made in Wales. It is difficult to predict how much Wales would receive under the H2020 programme,

given that it is highly competitive and the success rate low. Nevertheless we would expect to improve on the €84m Wales received under the former FP7 programme 2007-13.

Moreover, the impact would be wider than a reduction in R&D spend. One of the main benefits of access to direct EU research funds is the ability to collaborate with HEIs, Research Institutes and businesses across Europe and beyond. This ability not only enhances the value of projects but also gains access to some of the best research and skills available in Europe. If that is lost post Brexit, then it would hit Wales hard. A number of countries outside the EU have access to EU research funds. Thirteen countries (including Norway, Israel and Switzerland) have 'Associated Country' status and contribute to Framework Programme budgets proportionally to their GDP. This enables their researchers and organisations to apply for Horizon 2020 projects with the same status as those from EU Member States. Associated Country status is open to countries that are members of the European Free Trade Association (EFTA) and current EU candidate nations

The difficulties faced by future R&D funding comes at a time when investment in Innovation is at a record high in Wales. As well as the current remaining former Technium Centres (such as Optic, Pembroke and Swansea) , new investments are being developed at the Menai Science Park (M-SParc) (£20m), Cardiff Innovation Centres and Semiconductor Catapult (£300m) and the new Innovation And Enterprise Campus on the Gogerddan site owned by Aberystwyth University (£35m). Taken together are creating an innovation eco system not seen in Wales before and their future development is being placed at risk.

Conclusion: M-Sparc offers the following recommendations for the Committee to consider:-

- 1. In inter-governmental Brexit discussions, the Welsh Government should call on the UK Treasury to allocate extra resources to Wales post 2020**
 - at least equivalent to the sum Wales would have expected to receive under Structural Funds and Territorial Cooperation (Interreg) round 2021-2027;
 - at least equivalent to the funds secured under the H2020 programme during 2014-2020
- 2. The Welsh Government should push for Wales to continue to have access to the highest level of EU funds post Brexit by negotiating an arrangement similar to EFTA countries.**