The European Structural and Investment Funds – Contribution to UK research and innovation

This explainer outlines the role that European Structural and Investment Funds play in supporting investment and capacity building in UK research and innovation.

The total funding allocated to the UK over the 2014-2020 period under the European Structural and Investment Funds is €16.4bn

What are the European Structural and Investment Funds?

European Structural and Investment Funds (ESIF) are the EU's instrument for supporting economic development in the regions across the EU, with the aim of reducing inequalities and increasing cohesion. There are five funds that are collectively referred to as ESIF funds:

- the European Regional Development Fund (ERDF);
- the European Social Fund (ESF);
- the Cohesion Fund;
- the European Maritime and Fisheries Fund (EMFF);
- the European Agricultural Fund for Rural Development (EAFRD).

But ESIF also includes some smaller funds such as European Territorial Cooperation (INTERREG) funding and Peace Programmes in Northern Ireland. Of these, ERDF and ESF are the largest, between them accounting for more than 60% of ESIF funding over the current 2014–20 period. The total funding allocated to the UK over the 2014–2020 period under the European Structural and Investment Funds is €16.4bn.[1]

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1 House of Commons Library, *The UK Shared Prosperity Fund*, Briefing Paper, Number 08527, 8 May 2019

How do the Structural and Investment Funds support UK Research and Innovation?

The main fund that supports research and innovation is the European Regional Development Fund. The ERDF's priorities for the UK include:

1 **Research and innovation** (Priority axis 1)

2 **Access to, use and quality of ICT** (Priority axis 2)

3 **Support for small and medium-sized enterprises** (Priority axis 3)

4 **The low carbon economy** (Priority axis 4)

5 **Climate change adaptation** (Priority axis 5)

6 **Protecting the environment** (Priority axis 6)

7 **Sustainable transport** (Priority axis 7)

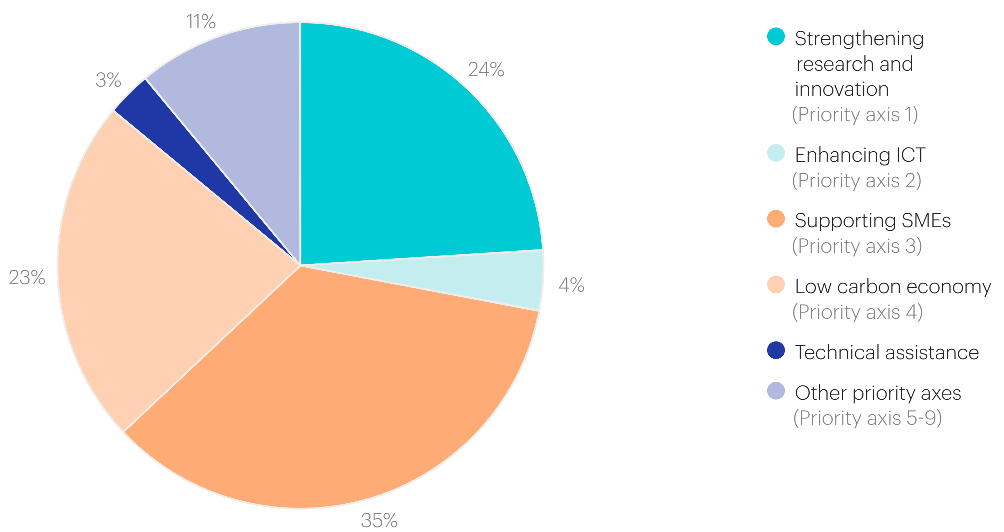
8 **Sustainable and quality employment** (Priority axis 8)

9 **Social inclusion, tackling poverty** (Priority axis 9)

ERDF funding for research and innovation activity in the UK amounts to €1.39bn over 2014-2020

The UK ERDF Partnership Agreement with the European Commission agreed ERDF funding for **research and innovation activity (priority axis 1)** of €1.39bn over 2014-2020, which is 24% of the total ERDF funding of €5.83bn,[2] and the second highest share after **support for SMEs (priority axis 3)** (35%). The low carbon economy axis was allocated 23% of the funding. This funding supports investments in research and innovation facilities and capacities, and offers opportunities that are not currently available through other channels. The added value of ERDF compared to what already exists in the UK is in the volume and focus of funding it makes available for research and innovation infrastructure in the UK's economically less well-developed regions.

Figure 1 **Structural and Investment Funds support**



2 European Commission, *Summary of the Partnership Agreement for United Kingdom*, Brussels, October 2014

ERDF requires UK co-financing, which is funding from government in addition to existing and planned domestic funding. Combining UK co-financing with ERDF funding, the total funding for research and innovation is over €2.6 billion, which equates to around €375 million per annum investment in research and innovation in the UK – roughly the size of a year's funding from an average sized research council in the UK.

Combining €1.39bn in ERDF funding and €1.21bn in UK match contributions equates to €375m per year in funding for research and innovation

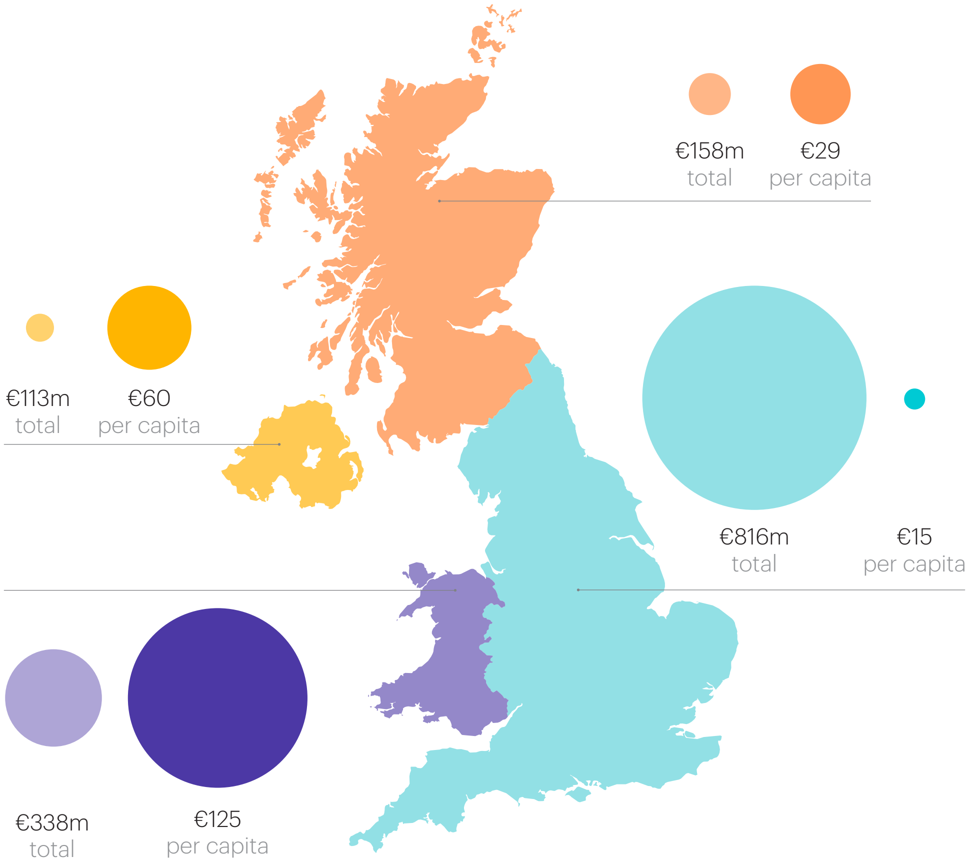
Figure 2 Total funding for research and innovation

While the UK Government has indicated an intention to identify an alternative to ESIF (The UK Shared Prosperity Fund) for tackling inequalities between communities and raising productivity when the UK leaves the EU, how it intends to do so remains unclear. This includes: how much funding will be made available in total; the length of the funding period; how the funding will be allocated to regions; and who will administer the funding. In order to continue to support and grow the UK's strong research and innovation sector, the government must ensure that now that the UK has withdrawn from the EU, there is no reduction in funding for the activities that are currently supported through the European Structural and Investment Funds.

What is the impact of current ERDF funding across the UK?

The funding for research and innovation via ERDF goes to all of the UK's four nations. England accounts for the largest share in volume terms, with around €816 million of the total (about 55%). Wales accounts for around €388m (26%), Scotland €158m (11%) and Northern Ireland around €113 million (8%). Per capita this changes significantly. 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. The estimate for Northern Ireland is €60 per capita and for Scotland €29 per capita.[3]

Figure 3 **ERDF funding for research and innovation 2014–20**



The per capita contribution is €125 for Wales – five times the UK average at €23 per capita and more than eight times the figure for England at €15 per capita

Wales and Northern Ireland benefit to a much greater extent from ERDF for the supply of funds for regional research and innovation activities, which reflects the logic of the structural funds. ERDF funding is particularly important in the devolved nations because it provides funding administered locally, for research and innovation. This often leverages further funding from the EU and from UK and devolved governments, creating complex interdependencies.

3 Technopolis Group, *The role of EU funding in UK research and innovation*, 10 May 2017

€1bn of funding for research and innovation will be invested in the private sector over the life of the 2014-2020 programme, 60% of that with SMEs

In addition to benefiting from funding under **'support for SMEs' (priority axis 3),** ERDF funding for **research and innovation (priority axis 1)** is also important for SMEs, and for industry more generally. Around €1bn of funding for research and innovation will be invested in the private sector over the life of the programme. The planned budget anticipates that around €860m (60%) of that will be spent with SMEs. That will produce an average annual income of around €140m for firms of all sizes and around €120m for SMEs.[4]

Case study

Sêr Cymru ('Stars Wales') programme

The Sêr Cymru ('Stars Wales') programme aims to strengthen the capacity of Wales' leading research groups via talent attraction and training. The first phase of the programme, launched in 2012, involved the investment of £50m from the Welsh Government and the Higher Education Funding Council for Wales, and enabled the establishment of three National Research Networks and the appointment of four Sêr Cymru Research Chairs. The second phase of the programme, launched in 2015, was a partnership between the Welsh Government, Higher Education Institutions in Wales, the Welsh European Funding Office and the European Commission. This phase has invested £60m in research and innovation in Wales by supporting more than 130 fellowships, made up of Marie Skłodowska-Curie Action COFUND Fellowships, Early Career Research Fellowships, and 'Recapturing Research Talent' Fellowships, plus 10 five-year 'Rising Star' Fellowships, and six Research Chair packages. For the second phase of the programme, the ERDF provided roughly 41% of the overall funding. The remaining funds have been provided by the Marie-Skłodowska-Curie COFUND, delivered through the EU's Horizon 2020 Framework Programme (11%), the Welsh Government (12%), and the Higher Education Funding Council (6%); and roughly 30% has been raised in match contributions from Higher Education Institutions.[5] The combination of Horizon 2020 funding and European Regional Development funding together has attracted considerable UK and international interest, and was highlighted in the UK Industrial Strategy: Building a Britain for the Future in 2017."

Case study

The Nanotechnology and Integrated BioEngineering Centre, University of Ulster

The Nanotechnology and Integrated BioEngineering Centre building was supported through ERDF grants totalling £6m, and economic appraisals estimate the centre has attracted over 90 researchers, and leveraged approximately £50m in research funding from the EU Framework Programmes, European Territorial Cooperation Funding, the US-Ireland Research Partnership, Invest Northern Ireland, the UK Research Councils and industry. The Centre has generated 35 patents, as well as high value spinout companies valued collectively at £100m.[6]

4 Technopolis Group, *The role of EU funding in UK research and innovation*, 10 May 2017, p.3
5 Technopolis Group, *The role of EU funding in UK research and innovation – Appendix: Case Studies*, 10 May 2017, p.32
6 Technopolis Group, *The role of EU funding in UK research and innovation – Appendix: Case Studies*, 10 May 2017, p.36

How is the funding allocated and administered?

Priorities for ERDF funding are determined in a process that begins with a Common Strategic Framework set at EU level. This is followed by a Partnership Agreement between the European Commission and Member States, which adapts the overarching objectives into national and regional contexts. Finally, Operational Programmes are developed at national or regional level detailing how the funds will be implemented.[7]

In the UK, 2 regions are classified as 'less developed', 11 are classified as 'transition regions', and the remaining 27 are classified as 'more developed'

Classifications of regions

All European regions are able to receive funding from the structural funds, although different areas across the EU receive different levels of funding depending on their economic situation. Funding is allocated across three types of regions, according to how their GDP per person compares with the EU average:

- Less developed regions, whose GDP per person is less than 75% of the average for the EU;
- Transition regions, whose GDP per person is between 75% and 90% of the EU average;
- More developed regions, whose GDP per person is above 90% of the EU average.

In the UK under the current 2014-2020 programming period, two regions are classified as 'less developed': Cornwall and the Isles of Scilly, and West Wales and the Valleys. There are eleven regions classified as 'transition regions': Cumbria, Devon, East Yorkshire and Northern Lincolnshire, Highlands and Islands, Lancashire, Lincolnshire, Merseyside, Northern Ireland, Shropshire and Staffordshire, South Yorkshire, and Tees Valley and Durham. The remaining 27 regions in the UK are classified as 'more developed' (40 regions in total).[8]

These classifications are important for a number of reasons.

- **Firstly,** they affect the amount of funding received by region on per capita basis, with 'less developed' regions receiving greater investment per capita than 'more developed' regions.
- **Secondly,** they affect the amount of freedom and flexibility in how the structural funds can be used. For example, under ERDF funding, regions are encouraged to focus on as many of the priorities of the ERDF programme as possible (research and innovation, support for SMEs, low carbon economy etc). In 'more developed' regions, at least 80% of the funding must focus on at least two of the ERDF's priorities. In 'transition regions', 60% of funds must focus on at least two priorities, and in 'less developed', 50% must focus on at least two priorities.[9] This affords greater freedom to the 'less developed' regions to identify and deliver funding in the most effective way for their region. In addition, in the 'more developed' regions, 20% of ERDF resources must be channelled towards low-carbon economy projects. This is 15% in 'transition' regions and 12% in 'less developed' regions.

There is more flexibility for 'less developed' regions to decide how to use their funding

Structural funds are administered jointly between the EU and nominated Managing Authorities in Member States. In the UK the administration of these funds, including the ERDF, is a devolved matter with different managing authorities in England, Scotland, Wales and Northern Ireland.[10]

7 Technopolis Group, *The role of EU funding in UK research and innovation*, 10 May 2017, Appendix D
8 The University of Sheffield, *UK regions and European structural and investment funds*, SPERI British Political Economy Brief No.24, p.2
9 European Commission, European Regional Development Fund
10 House of Commons Library, *The UK Shared Prosperity Fund*, Briefing Paper, Number 08527, 8 May 2019

What will the UK Shared Prosperity Fund look like?

The UK Government has guaranteed the delivery of the full Multiannual Financial Framework (MFF) allocation for structural and investment funds over the 2014-20 funding period. Payments will be made to beneficiaries by the UK Government up to the end of 2023.[1] Following the end of this funding, the UK Government has said that there will be a UK Shared Prosperity Fund, however there remain a series of questions around how this might operate, including its strategic goals, administration, allocation and volume of funding:

The Government must ensure that funding for UK research and innovation activity does not decrease when the UK leaves the EU

- **The total funding that will be available.** There is currently no UK Government commitment to maintain the funding of EU Structural and Investment Funds at their current level going into what would be the next programming period from 2021. In addition, all EU Structural Funds adhere to a principle called 'additionality'. This means that EU funding does not replace national funding but is added to it through a process of match funding, ensuring that structural funds are not used to offset cuts in national or local funding. Following the UK's withdrawal from the EU, government research and innovation funding should, at the very least, equal the sum of existing expenditure from all sources.

- **The length of the funding.** The structural funds are determined through the EU's MFF which is for a seven-year period. This provides helpful certainty of funding particularly in contrast to the UK's shorter Spending Review periods which are usually between 2-4 years. It is unclear how the UK funds would be able to continue the current length of funding and its certainty.

- **The method of the allocation of funds.** The ERDF is determined on a needs-based allocation utilising GDP per person.[2] Any changes to the method of the allocation of the funds is likely to impact certain areas and regions significantly. In addition, early analysis suggests that a greater number of regions in the UK may from 2021 fall within the 'less developed' category, due to widening regional disparity[3]. Under EU funding rules, this would increase the amount of funding available to these regions from current levels. There is no commitment that this method of allocation will be maintained.

- **The administration of funds.** Currently funding is administered by managing authorities in England, Scotland and Wales, as agreed between the European Commission and the UK as an EU Member State. With new UK funding, the role of the UK Government based in Westminster with the devolved administrations and local partners is not clear.

1 HM Treasury, *The government's guarantee for EU-funded programmes if there is no Brexit deal*, Updated 8 August 2019, accessed 19 August 2019

2 House of Commons Library, *The UK Shared Prosperity Fund*, Briefing Paper, Number 08527, 8 May 2019, p.11-13

3 Conference of Peripheral Maritime Regions, *UK Entitled to €13bn Regional Funding if it Remains in the EU*, Briefing Paper, January 2019, accessed 20 August 2019 https://cpmr.org/wpdm-package/uk-allocation-for-cohesion-policy-for-post2020/?wpdmdl=20524&ind=1550570009760

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