UK GOVERNMENT REVIEW OF THE BALANCE OF COMPETENCES BETWEEN THE UNITED KINGDOM AND THE EUROPEAN UNION

Response by the Regional Studies Association to the BIS Call for Evidence on the Cohesion Policy review

INTRODUCTION

The Regional Studies Association (RSA) welcomes the opportunity to contribute to the Review of EU Cohesion Policy being conducted as part of the UK Government review of the balance of competences between the UK and the EU.

The Regional Studies Association is a major international learned society concerned with the analysis of regions and regional issues. Through its international membership, the RSA provides an authoritative voice of, and network for, academics, students, practitioners, policy makers and interested lay people in the field of regional studies. The RSA also publishes three leading journals in the field: *Regional Studies*, *Spatial Economic Analysis*, and *Territory, Politics, Governance.*

The following submission follows a call to the RSA membership for responses and draws, in particular, on contributions made by Professor Robert Leonardi (LUISS University of Rome) and Professor Philip McCann (University of Groningen), with additional input from Professor Gillian Bristow (University of Cardiff), Professor Steve Fothergill (Sheffield Hallam University) and Professor Peter Wells (Sheffield Hallam University). The submission has been coordinated on behalf of the RSA by Professor John Bachtler (University of Strathclyde).

COHESION POLICY

Question 1: How effective in your view have the structural funds been in addressing the tasks given to them under various Treaties and what might be done to improve this?

The Single European Act in 1986 initially set the (then) European Community the objective of reducing disparities between the most advanced and the least advanced regions in the Community Until the onset of the crisis, there was a long-term process of convergence across the EU between the poorest regions and countries and the rest of the EU. The question is the extent to which Cohesion policy contributed to this convergence in GDP per capita. Research is not always conclusive, partly because the implementation of Structural and Cohesion Funds accompanied the Single Market in promoting the free flow of production factors (capital, labour, skills, technology). However, there is evidence that investment funded by Cohesion policy stimulated the faster growth of the peripheral regions vis-à-vis the core.

The majority of the evidence currently available including the most recent analyses, (Becker et al. 2010, 2012; Pellegrini et al. 2013) points to the Structural Funds being very effective in previous programme periods. The impacts are clearly large and also largely at the level at which they were intended. For an overview of the impacts identified from econometric and computable-general-equilibrium modelling see McCann and Ortega-Argilés (2013).

For responses to the UK call for evidence, part of the problem is that the awareness of the role and impact of Cohesion Policy is positively related to the relative size of Cohesion policy investments in a country relative to its GDP (European Commission 2010). In the UK therefore general public awareness is very low, and largely confined to the localities or sectors where the impacts are relatively significant.

It is also worth noting the significance of Structural Funds during and after the crisis in some Member States. As Healy and Bristow (2013) have shown, in many instances the Funds have provided the only source of external investment funds as domestic budgets have been cut-back and bank lending has diminished.

Becker, S.O, Egger, P.H, and von Ehrlich, M. (2010) "Going NUTS: The effect of EU Structural Funds on Regional Performance", *Journal of Public Economics* 94, 578–590

Becker, S.O, Egger, P.H, and von Ehrlich, M. (2012a) "Too Much of a Good Thing? On the Growth Effects of the EU's Regional Policy", *European Economic Review*, 56, 648-668

European Commission (2010) *Citizens' Awareness and Perceptions of EU Regional Policy: Analytical Report*, Brussels.

Healey, A. and Bristow, G. (2012) *Economic Crisis and the Structural Funds*, ESPON Applied Research Project ECR2 – Economic Crisis: Resilience of regions,

http://www.espon.eu/export/sites/default/Documents/Press/PressReleases/2013-Article/OD-ECR2-article_Economic-Crisis-and-the-Structural-Funds.pdf

McCann, P., and Ortega-Argilés, R. (2013b) "Transforming European Regional Policy: A Results-Driven Agenda and Smart Specialisation", *Oxford Review of Economic Policy*, 29.2, 405-431

Pellegrini, G., Terribile, F., Tarola, O., Muccigrosso, T., and Busillo, F., 2013, "", *Papers in Regional Science*, Measuring the Effects of European Regional Policy on Economic Growth: A Regression Discontinuity Approach", *Papers in Regional Science*, 92.1, 217-233

Question 2: To what extent have UK workers or companies benefited or not benefited from EU structural funds?

Most evaluations of UK and other programmes from the mid-2000s onwards have shown the positive effects of the Structural Funds. The PwC evaluation of the impact of the former Regional Development Agencies provides quantitative evidence for the effectiveness of EU-cofinanced interventions for people, places and businesses (PwC 2009). However, as most evaluations point out, there are severe measurement problems in accurately determining the impact of Structural Funds in the UK because of their dispersion over a large number of interventions, the different timescales over which different types of intervention can be expected to have an effect, and the limitations of monitoring data.

Looking at the longer term picture, the peripheral and most disadvantaged areas of the UK did benefit from the Cohesion policy in that many of the previous Objective 1 areas ceased to remain in that category. EU funds helped to finance investment programmes for the purpose of industrial conversion (especially in the coal mining areas), the creation of new businesses, the financing of infrastructure, investments in technology, and, maybe most importantly, in promoting the peace process in Northern Ireland.

With respect to EU-cofunded regional aid in the UK, the recent evidence shows that regional selective assistance operating under the SIFE banner was effective and cost-efficient in terms of increasing employment also investment, while the total factor productivity effects have been insignificant (Chriscuolo et al. 2012; Criscuolo and Martin 2012). The effects are relatively larger on smaller firms and tend to favour firms lower down the value-adding chain. Moreover, the effects are economically significant.

Chriscuolo, C., Martin, R., Overman, H.W., and Van Reenen, J. (2012) The Causal Effects of an Industrial Policy, *CEP Discussion Paper* No 113, Centre for Economic Performance, LSE, http://cep.lse.ac.uk/pubs/download/dp1113.pdf

Chriscuolo, C., and Martin, R., 2012b, *Longitudinal Study of Regional Micro Assistance in Wales: Final report Stage 2,* Centre for Economic Performance, LSE

PwC (2009) *The Impact of RDA Spending,* Report to the Department of Business, Enterprise & Regulatory Reform, PricewaterhouseCoopers, London.

Question 3: Are the types of activity covered by the Structural Funds and other funds outlined in this paper more appropriately funded at EU, national or regional/local level? Should all member states receive structural funds in future? If not what should be the criterion.

The first part of the question is poorly framed because the overwhelming evidence from the OECD (2009, 2011a,b; 2012) is that the best approach for anything at the regional or local level is that it is situated within a multi-level governance approach which allows for clear rules and guidelines to set the overall agenda and at the same time local policy-tailoring.

All Member States should receive some Structural Funds – because the funds are primarily about fostering development and helping regions facing difficulties to overcome significant problems of transitions and adjustment. Such regions also exist in every one of the richer EU member states as well as in the lower income Member States. Although there is obviously a redistributive element to the programme, the primary objective is development, as has already been made absolutely clear by the Barca (2009) report. The issue is not whether all or just some Member States should receive the funding, but rather what is an appropriate distribution of funding allocations.

Turning to the case for 'renationalisation' of Cohesion policy made by the UK Government and others such as Open Europe (e.g. Swidlicki et al 2012) in the past, there is a superficially attractive argument for the renationalization of the Funds in bringing benefits of reducing bureaucracy and allowing spending on regional aid to be tailored more closely to UK circumstances. However, as Fothergill (2012) has convincingly demonstrated, the financial advantages to the UK are likely to be much than have been stated. The net financial gain to the UK of re-nationalisation ultimately depends on net financial losses to other member states, notably Spain, Greece and Italy. Delivering re-nationalisation requires sufficient support from other EU member states, which seems unlikely so long as there are large potential net losers. Lastly, promises from the Westminster government to compensate the regions for any loss of funding from the EU are inherently weak and doubly questionable in an era of public spending cuts, and are unlikely to be acceptable to the Devolved Administrations.

Barca, F, (2009) *An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations*, Independent Report Prepared at the Request of the European Commissioner for Regional Policy, Danuta Hübner, European Commission, Brussels.

Fothergill, S. (2012) *European Regional Development Fund: is there a convincing case for 'renationalisation'?* Submission to the Communities and Local Government Committee inquiry into ERDF funding, Centre for Regional Economic and Social Research, Sheffield Hallam University.

OECD (2009) *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*, Organisation for Economic Growth and Development, Paris

OECD (2011a) *Regions and Innovation Policy*, Organisation for Economic Growth and Development, Paris

OECD (2011b) *OECD Regional Outlook 2011*, Organisation for Economic Cooperation and Development, Paris

OECD (2012) *Promoting Growth in All Regions*, Organisation for Economic Growth and Development, Paris.

Swidlicki, P., Ruparel, P., Persson, M. and Howarth, C. (2012) *Off Target: the case for bringing regional policy back home*, Open Europe, London.

Question 4: What is the right balance between strategic guidance between EU level, member states management and control of funds, and regional or local identification of local needs?

This depends on the geographical and institutional context which is different in every Member State. In the case of England, the design of policies is over-centralised with far too much of a London-centric top-down logic. On the other hand, in terms of the bottom-up logic many of England's regional and local actors – and in particular the LEPs, have insufficient capacity to develop or implement good policies. In this respect Scotland, Wales and Northern Ireland are all much better places to address these issues than many parts of England.

Taking a broader EU perspective on the management of Cohesion policy, any policy approach for territorial development must be undertaken within an EU framework. The objectives and priorities cannot be dependent only on local conditions and ignore the development potential for the entire EU. This is the case in terms of infrastructure networks, skills, entrepreneurial opportunities, access to technology. An overall view of the EU territory allows the Commission to focus in on those areas or sectors where deficiencies exist in order to provide a more homogenous market and opportunity structure for all.

In some Member States, there is the danger that devolving the management and control of the Structural Funds to national and sub-national authorities would expose the use of the Funds to pressure from party-political and other vested interests and misuse or corruption. It needs to be understood that the funds allocated through Cohesion policy are EU funds and not national ones; the Structural Funds represent an additional level of EU financing to sustain projects and objectives that are deemed European and national priorities and are not just about socio-economic development but about ensuring a better functioning of the Single Market.

Question 5: Do all parts of cohesion policy offer equal value for money? Are different approaches required for different funds and different geographies?

The first question cannot be answered easily using existing evidence because the different dimension of the Cohesion policy interventions – smart, sustainable and inclusive growth - are so diverse and cannot be measured using a single metric. This is exactly why the EU has moved towards a results-oriented approach whereby results indicators which are appropriate to the intended objectives are to be clearly articulated. The evidence from the UK is that these issues regarding results-orientation, monitoring and evaluation are already been treated very seriously by UK policy-makers in a range of different settings (BIS 2013a,b; Scottish Government, 2013).

Previous work in the UK has cast doubt on the value-for-money of spending on community economic development, suggesting a better return of the Funds with a strong 'competitiveness' or 'industrial policy' focus. Armstrong and Wells (with colleagues) (Armstrong et al. 2001, 2002 and 2006) highlighted the myriad problems of targeting the Structural Funds at relatively small (ward level) areas which were predominantly used for residential purposes. Wells and Armstrong do not suggest that the levels of deprivation were not high in these areas (and therefore requiring a range of employment and social policy assistance) but that the benefits of Structural Funds to these areas were limited. This was for the following reasons: injections of income into the areas quickly leaked away (there were few multiplier effects), a high proportion of jobs and new firm starts came with high levels of displacement (often from similarly disadvantaged individuals), and many of the new enterprises were not sustained after the funding ceased.

Armstrong, H.W. and Wells, P. (2006) The Structural Funds and the Evaluation of Community Economic Development Initiatives: A United Kingdom Perspective. *Regional Studies*, 40 (2), pp. 259-272. doi:10.1080/00343400600600645

Armstrong, H.W, Kehrer, B. and Wells, P. (2002) The Evaluation of Community Economic Development Initiatives. *Urban Studies*, 39 (3), pp. 457-481.

Armstrong, H.W, Kehrer, B, Wells, P. and Wood, A. (2001) Initial Impacts of Community Economic Development Initiatives in the Yorkshire and Humber Structural Funds programme. *Regional Studies*, 35 (8).

BIS (2013a) *Framework of European Growth Programme Priorities: Background Analysis*, HM Government, July

BIS (2013b) *Encouraging a British Invention Revolution: Sir Andrew Witty's Review of Universities and Growth*, London

Scottish Government (2013) *European Structural Funds 2014-2020 Programmes: A Public Consultation Seeking Views on the Proposals for the Implementation of the 2014-2020 European Structural Funds*, Edinburgh.

Question 6: To what extent should the funds be targeted at less developed areas and disadvantages groups rather than being available as sources of investment for economic development across all areas?

Concentration of funds on the less-developed countries and regions has always rightly been a principle of Cohesion policy, reflected in the eligibility thresholds (regional and national GDP per capita) for both Structural Funds and the Cohesion Fund, and in the financial allocation methodologies used for determining Member States shares of the Funds (GDP per capita, unemployment rates). However, this does not mean that the Funds should be exclusively targeted on the less developed areas and groups; there are disadvantaged regions and groups throughout the EU. Within regions/programmes, there is a strong case for greater targeting of Structural Funds on key strategic projects.

See also response to Question 3 above.

Question 7: How effective in your view is accountability and financial management of the funds outlined in this paper? What further steps if any might be taken to provide increased assurance for EU taxpayers?

The first part of the question can answered with reference to evidence from the European Court of Auditors (2013) reported that error rates in Cohesion policy were of the order of 6% in 2011 and affected 59% of transactions and 6.8% in 2012 affecting 49% of transactions. Of these 6-6.8% error rates, some 52% of the error rate – or just over 3% of the total policy payments - was associated with failures to comply with public procurement rules, while 28% of the error rate – or just over 1.5% of the policy payments - was associated with ineligible payments. Similar orders of magnitude for payment errors were reported by an investigation entitled “Europe’s Hidden Billions” published by The Financial Times 30.11.2010-03.12.2010. See:

http://aboutus.ft.com/2010/11/30/europes-hidden-billions-%E2%80%93-tracking-the-eu%E2%80%99s-structural-funds/#axzz2lrS3focd

In terms of improving accountability this can only come about by transparency of intended objectives, the ongoing monitoring of outcomes, and the evaluation of policy outcomes via the publication of the progress towards intended objectives on the basis of the agreed results indicators. Improved accountability is not an accounting problem. The policy is already heavily scrutinized in accounting terms.

European Court of Auditors (2013), *2012 EU Audit in Brief: Information Note on the 2012 Annual Reports*, Luxembourg

Question 8: What are the main barriers to accessing EU funds? What might be done to overcome these?

Across Europe, the main barriers to accessing EU funds are for the private sector with respect to: (a) information on the availability of funds; and (b) the presentation of viable project proposals based on the co-financing of the investment, which also meet the objectives and priorities of the programme. The role of the banks in providing bridging or supporting loans is crucial if a firm is not in a position to self-finance the investment and there is currently a shortage of bank credit in several countries. For the public sector the potential barriers are: (a) the lack of adequate administrative capacity; (b) internal expertise on the sector where the investment will take place; and (c) the inability or unwillingness to network with other partners (e.g. between municipalities) where a project crosses administrative boundaries.

Research has found that there are particular capacity constraints at sub-national level that affect the ability of regional and local authorities to engage with Structural Funds programmes. Some of these constraints are financial, but they are also technical and institutional (Charron et al, 2011). Measures taken in some Member States to reform institutional structures – often resulting from the crisis and the need to make public expenditure savings - have, in the short-term at least, exacerbated these challenges and highlight the importance of taking appropriate actions in a pre-emptive manner, rather than being crisis-led (Healey and Bristow, 2013).

The level of transaction costs required to apply for, secure and then monitor the Structural Funds has at times been excessive and even inhibits some beneficiaries from applying for funding. A balance needs to be struck and alignment with other funds is necessary. Moving to investment approaches that offer open bidding has sometimes helped.

Charron, N., Lapuente, V. and Dykstra L. (2012), *Regional Governance Matters: A Study on Regional Variation in Quality of Government within the EU*, Working Paper of the EU Commission Directorate-General for Regional Policy, No. 01/2012, http://ec.europa.eu/regional_policy/sources/docgener/work/2012_02_governance.pdf

Healey, A. and Bristow, G. (2012) *Economic Crisis and the Structural Funds*, ESPON Applied Research Project ECR2 – Economic Crisis: Resilience of regions,

http://www.espon.eu/export/sites/default/Documents/Press/PressReleases/2013-Article/OD-ECR2-article_Economic-Crisis-and-the-Structural-Funds.pdf

Question 9: What practical steps could be taken to reduce the administrative burdens in getting funding from EU programmes?

When it comes to "administrative burdens" it is difficult at times to distinguish whether a provision for control represents an administrative burden or a necessary mechanism to control fraud and other irregularities. Most of the burdens normally referred relate to the reporting procedures for justifying the disbursement of funds (i.e. certification requirements). In the use of public funds it is necessary to build in the necessary oversight mechanisms. Given that what is at stake is the provision of public funds, the continued use of these funds requires a high level of confidence.

Question 10: How can the local or regional dimension best be reflected in EU policy-making?

At national and programme level, the key factor is to ensure that the partnership principles inherent in the multi-level-governance logic underpinning the place-based reforms are adhered to properly, and are not just treated as a 'tick-box' exercise by central government.

At European level, the local and regional dimension should be reflected in EU policy making via the Committee of Regions is able to make a strong input into the policy making process. The Commission regularly meets with regional and local authorities in order to inform them on policy changes and given that many of these authorities also function as management authorities in the use of the Funds.

Trans-European Networks

Question 1: In your view to what extent have the TENs supported or promoted cohesion, interconnection and interoperability of national networks and access to national networks across the EU? Has this been in the UK's national interest?

The TENs programme is designed to provide trans-European networks in order to provide a European-wide infrastructure grid capable of interconnecting the European economic space. In the past, the focus of the TENs projects have been on road and rail in addition to ports, airports and telecommunications. This programme has had a major impact on peripheral countries which had the greatest difficulties in accessing large market areas in the core regions of the EU. TENs programme have been important for developing a level playing field for all regions and countries, to avoid the benefits of the Single Market being limited to Europe's core areas.

Forthcoming data from the European Commission shows that TENs in road transport have heavily increased market potential of many areas, and that the UK had been one of the major beneficiaries of this.

Question 2: Are the types of activities covered by the TENs more appropriately funded at the EU, national or regional level?

The TENS project focus on the creation of a European-wide network which usually involves the connection of national peripheries on a European wide basis. In the past the missing connections were provided by the Cohesion Fund operating in less developed member states, but it is now necessary to guarantee trans-European networks not only in roads and railroads but also in the supply of energy in the field of electricity and gas. These important sectors cannot be left solely to the supplier of the energy or the first consumer on the network. Most of the existing TENs would never have emerged if funding was purely at the national level.

Industrial Policy

Question 1: What do you see as the major advantages or disadvantages of a EU-wide industrial policy approach?

The premise of the question is false. There is no such strategy and never has been. Within Cohesion policy there is the smart specialization agenda, but this is about tailoring policy-priorities to local assets and potential → this is a long way from an EU-wide industrial strategy, instead emphasising heterogeneity, diversity, and diversification around core competences which differ across places.

Question 2: How can the EU approach and strategies of individual member states be better aligned? Do you consider it appropriate that they are aligned?

Smart specialization – and yes absolutely in this sense. See above answer to Question 2.

Question 3: Where in your opinion have EU actions had a positive effect on UK industry? What leads you to this conclusion?

The Accelerate and PARD programmes – seed-funded by ERDF – had a major impact on upgrading the automotive clusters in the West Midlands, particularly the Accelerate programme. See the work of Gill Bentley and Stuart McNeill at Birmingham Business School and David Bailey at Aston.

Regional Studies Association
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