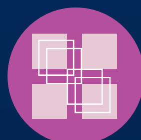
Post-Brexit Regional Policy

Proposals from the Industrial Communities Alliance



Industrial Communities **Alliance**

Foreword

For more than thirty years we've struggled to rebuild the economies of our older industrial areas. The EU has been a key ally, and we are immensely grateful for the support we have received.

But with Brexit on the horizon, things are set to change. The ways we go about regenerating our areas, and the sources of funding we draw on, all need re-thinking. The government knows this, and it is one of the challenges they have to address over the next couple of years.

This booklet sets out our proposals for post-Brexit regional policy. In particular, we're calling for the creation of a new UK Regional Development Fund, worth at least £1.5bn a year.

The authorities that make up the Industrial Communities Alliance have vast experience in promoting growth and jobs in some of the most disadvantaged local economies across England, Scotland and Wales. The proposals here are rooted in that expertise and they have been debated – and agreed – at meetings around the country before being signed off nationally.

We're asking the UK government and the devolved administrations to sign up to our agenda. We're also encouraging all those who share our concern for the future of our communities to back our proposals.

Cllr Terry O'Neill
National Chair, Industrial Communities Alliance
Leader, Warrington BC

Proposals

- **Establish a new *UK Regional Development Fund* to take over the responsibilities of the EU Structural Funds**

- **Set the new Fund's budget at a level that not only compensates for the loss of EU funding (£1.5bn a year) but also provides additional resources to match the scale of the challenge**

- **Structure the new Fund in ways that deliver support more efficiently, more flexibly and with more local authority control**

- **Allocate the new Fund in fair and transparent ways that give priority to the development needs of less prosperous regions and local economies**

- **Reform the rules on financial support to companies to enable the delivery of more effective support in the places that need it most**

- **Exploit the opportunity provided by this major revision of regional policy to align a wider range of public spending with the priority of local and regional economic development**

EU Structural Funds allocations to the UK regions, 2014-20, €m

Region	€m	Region	€m
Black Country	*176.6*	*North Eastern*	*537.4*
Buckinghamshire Thames Valley	*13.8*	*Northamptonshire*	*54.8*
Cheshire & Warrington	*141.6*	*Oxfordshire*	*19.3*
Coast to Capital	*67.0*	*Sheffield City Region*	*207.2*
Cornwall	*590.4*	*Solent*	*42.9*
Coventry & Warwickshire	*135.5*	*South East*	*185.1*
Cumbria	*91.0*	*South East Midlands*	*87.9*
D2N2	*244.0*	*Stoke & Staffordshire*	*160.9*
Dorset	*47.1*	*Swindon & Wiltshire*	*43.4*
Enterprise M3	*45.5*	*Tees Valley*	*201.7*
Gloucestershire	*38.1*	*Thames Valley Berkshire*	*28.5*
Greater Birmingham & Solihull	*254.8*	*The Marches*	*113.3*
Greater Cambridge & Peterborough	*75.2*	*West of England*	*68.3*
Greater Lincolnshire	*133.0*	*Worcestershire*	*67.8*
Greater Manchester	*413.8*	*York & North Yorkshire*	*97.1*
Heart of the South West	*117.8*		
Hertfordshire	*69.2*	*East Wales*	*406.6*
Humber	*102.0*	*West Wales & the Valleys*	*2.005.9*
Lancashire	*265.2*		
Leeds City Region	*389.5*	*Highlands & Islands*	*193.0*
Leicester & Leicestershire	*125.7*	*Rest of Scotland*	*701.6*
Liverpool City Region	*220.9*		
London	*745.4*	*Northern Ireland*	*513.4*
New Anglia	*94.1*		

Source: HM Government

POST-BREXIT REGIONAL POLICY

The implications of Brexit

For more than thirty years, the EU has been at the heart of regional development in the UK:

- The **EU Structural Funds** – principally the European Regional Development Fund (ERDF) and the European Social Fund (ESF) – have co-financed a vast range of initiatives to promote regional economic growth

- **EU State Aid rules** have defined the extent to which the UK is allowed to provide financial support to companies to help promote growth and jobs, setting the limits on the value of the aid and the parameters of the UK Assisted Area map

In the present EU spending round (2014-20) the UK had been set to receive a total of £10bn (at the current exchange rate) from the Structural Funds, or just under £1.5bn a year. Wales was due to receive £2bn – a reflection of the top-priority status of West Wales & the Valleys – and Scotland £800m. £6bn was due to come to England.

After Brexit, it is a reasonable assumption that EU funding to the UK regions will come to an end, even if there are transitional arrangements. The Treasury has agreed to underwrite EU-funded projects that are signed off by the point of Brexit, which on the government's timetable will probably be in March 2019. This falls well short of guaranteeing all the EU funding that had previously been due to come to the UK.

The EU State Aid rules have for many years set the limits on aid to companies from the UK government, devolved administrations, local authorities and development agencies. England's *Regional Growth Fund*, worth £3.2bn between 2010 and 2015, operated within the framework of the EU rules and Scotland and Wales continue to operate their own schemes.

The future role of EU State Aid rules is more uncertain. Continued access to the single market may require that the EU rules remain largely in place. A 'harder' Brexit is likely to mean greater freedom from EU rules and the opportunity to make a fresh start.

Older industrial Britain

Within the UK, older industrial areas have arguably been the prime beneficiary of EU regional policy:

- The EU Structural Funds have been, and still remain, explicitly targeted at less prosperous areas, including much of older industrial Britain

- Successive iterations of the UK Assisted Area map, under the EU State Aid rules, have included most older industrial areas

Older industrial Britain has gained immensely from this support. There are now countless thousands of jobs in these areas that would not have been there without one aspect or another of EU regional policy. However, these substantial successes have to be seen in the context the complete destruction of the original economic base of so many communities – the disappearance of industries such as coal, steel, shipbuilding, engineering and textiles.

Older industrial Britain continues to be mired in economic difficulties:

- Across the industrial parts of Scotland, Wales, the North and Midlands, the economy has generally grown far more slowly over the last twenty years than in London and the South East

- Employment rates continue to be below than the national average

- Reliance on welfare benefits, including in-work benefits, is higher

- Too many of the new jobs that have been created are low-paid and insecure

- With a poor mix of jobs and skills, output per head lags well behind the best parts of the country

Added to this, there is growing political disenchantment. The older industrial areas of England and Wales, especially away from the big cities, were the heartlands of the vote to leave the EU – typically by a margin of two-to-one. This is widely regarded as a reflection of alienation from the current model of economic growth and the overweening domination of London and its hinterland.

The new government led by Theresa May has voiced heightened concern for the places and people "left behind". The reinvigoration of support for older industrial Britain is a key way to address this problem. More generally, the 'rebalancing' of the UK economy depends on the promotion of growth and jobs in this sizeable part of Britain. The UK economy will not reach its full potential if places continue to be left behind.

<u>This is not the moment for the UK government to walk away from older industrial Britain</u>.

A new strategic direction

The UK's impending departure from the EU provides a unique opportunity to **redesign and strengthen** regional economic policy. There are good examples and principles from its time in the EU that the UK can take on its journey but there is no longer any need to be constrained by priorities or budgets set in Brussels.

Older industrial Britain needs a post-Brexit regional policy that is:

- Well-funded
- Strongly targeted, within and between regions
- Driven by objective evidence of need and opportunity
- Tailored to the local tasks in hand
- Flexible in delivery
- Managed locally and democratically

There are however significant pitfalls to be avoided.

First, it would be wrong for the Treasury to **pocket the money** that would have been handed over to Brussels and returned as regional aid. Using these funds to reduce the budget deficit would be short-sighted and counter-productive. The 2016 *Autumn Statement* includes a budget line for "assumed domestic spending in lieu of EU transfers" worth £13bn in 2019-20, £13.4bn in 2021-21 and £13.9bn in 2021-22. The point is that there is plenty of money potentially available for regional policy.

Second, it would be wrong to assume that **industrial strategy** is a substitute for regional policy. An industrial strategy is welcome and should be of benefit to older industrial areas, where much of what remains of UK manufacturing is still located. But industrial strategy is about promoting growth in all parts of the country, not just the most disadvantaged places. Indeed, the UK government's emphasis on R&D and housing development suggests that the South East of England could actually be the main beneficiary.

Third, it would be wrong to assume that **devolution**, to the Scottish and Welsh Governments and to local areas in England, is an alternative to regional policy. Devolution is about where decisions are taken, whereas regional policy is about the tools and funding streams decision-makers have at their disposal. The existing devolution deals in England, for example, have included only modest additional resources, not enough indeed to offset the big cuts in mainstream funding.

A successful regional policy that promotes growth and jobs in older industrial Britain would also be of benefit to London and the South East. Growth in older industrial Britain would take pressure off London and its surrounding area. It would help slow population growth in the South, ease congestion and stop adding to an already over-heated housing market. It would also help break the spiral whereby ever-increasing growth in and around London generates an ever-increasing demand for spending on new infrastructure.

A new, post-Brexit regional policy needs to focus on the investment the regions need and recognise that local authorities across England, Scotland and Wales have a key role in maintaining the social fabric and wellbeing of the population, as the coordinator of local initiatives and as the last and best means of service delivery.

A new, post-Brexit regional policy is central to the delivery of national economic growth. The UK economy as a whole cannot be expected to reach its full potential if substantial parts of the country continue to lag behind in output, employment and productivity.

Regional policy is not just about hand-outs for poorer areas. It is about:

- **Raising productivity**
- **Promoting investment**
- **Increasing output**
- **Reducing the trade deficit**
- **Up-skilling the workforce**
- **Increasing the employment rate**
- **Lessening the claim on welfare**
- **Reducing the budget deficit**
- **Raising living standards**
- **Reducing inequalities**

PROPOSAL 1
Establish a new UK Regional Development Fund

With the impending disappearance of the EU Structural Funds there is a massive gap to be filled. A new ***UK Regional Development Fund*** should be created.

The new Fund should take over the present-day responsibilities of EU regional aid and continue to finance a wide range of initiatives to promote growth and jobs in Britain's less prosperous areas.

Like the EU funds it replaces, the new Fund should do this primarily by co-financing schemes supported by local partners but, exploiting the flexibilities provided by Brexit, it should also be able to wholly-finance projects where appropriate.

The new Fund would be a budget line set by the UK government in London but managed on a devolved basis.

In **Scotland** and in **Wales**, the relevant share of the new Fund should be a payment to the devolved administrations over and above the monies due via the Barnett formula. This is the arrangement that currently applies to EU funding and ensures in particular that Wales receives a significantly higher share of the pot, reflecting its needs, than if the normal Barnett formula had applied.

In **England**, there is sense in maintaining sub-regional allocations and management, given the scale at which local economies operate.

The new Fund should become fully operational at the point at which the UK leaves the EU so that there is **no hiatus** in funding to the regions.

PROPOSAL 2
Allocate funding to match the scale of the task

The resources devoted to the new *UK Regional Development Fund* should reflect the scale of the task.

To match the EU funding previously due to come to the UK, the new Fund's initial budget would need to be **at least £1.5bn a year**. This would guarantee continuity and ensure that UK regions receive at a minimum all the funding they had been scheduled to receive through to the end of 2020.

There is no reason however why the new Fund's budget should remain tied to EU formulas. The UK suffers from large and widening disparities in prosperity. Brexit and the re-focussing of government policy on the 'places and people left behind' provide the opportunity for a **step-change in spending** on regional development, allowing substantial **additional activity and impact**.

In the longer term, the scale of funding might be linked to the on-going scale of UK regional disparities.

The new Fund can be financed in its entirety from the savings to the Treasury arising from withdrawal from the EU.

Like the EU funds, the new *UK Regional Development Fund* should operate on the basis of **multiannual financial allocations**, which create certainty, foster stability and allow the proper planning of ambitious projects.

PROPOSAL 3

More efficient, more flexible support with more local authority control

The rules associated with EU funding have been excessive. In establishing a new *UK Regional Development Fund* there is the opportunity to introduce greater simplicity and effectiveness whilst maintaining transparency and accountability:

- The **division between ERDF and ESF** funding streams reflects structures in Brussels but it does not make much sense on the ground to separate off economic development from skills. The division should be scrapped. Support for rural economic development – historically managed separately – might also be integrated.

- EU funding has increasingly been linked to narrow **thematic constraints** such as the green agenda and R&D, especially outside 'Less developed' regions – in other words across all of England apart from Cornwall, the whole of Scotland, and all of Wales apart from West Wales & the Valleys. These thematic constraints are an obstacle to designing interventions that reflect local needs and should be scrapped.

- EU funding has been associated with labyrinthine **bureaucracy** – national and local programming, pre and post-evaluation, over-detailed targeting, lack of flexibility and pedantic auditing. There is an opportunity to greatly simplify the management of regional aid.

There is also the opportunity to tailor a new *UK Regional Development Fund* more closely to domestic priorities. That might mean, in particular, ensuring that regional development and industrial strategy work in harmony.

An integral part of the management of the new Fund should be effective local control. Local authorities are most closely attuned to local needs and should take the key decisions about spending priorities. The Westminster Government should look for ways to generate results and outcomes but leave the 'how' and 'who' to local authorities and their partners. In Scotland and Wales, where there is the intervening layer of the devolved administrations, local authorities need to be fully integrated into the Fund's management. In England, where Local Enterprise Partnerships presently manage EU funds, there is currently a lack of local democratic accountability. There should be a new emphasis on decision-making by local authorities.

Britain's older industrial areas have a pressing need for investment in **skills and training**, which points to the need to maintain the activities currently financed by the European Social Fund. The introduction of new technology, in particular, poses challenges across many occupations and industries. Some local areas have pressing **infrastructure** needs. Others need support for **business development**. The balance of spending should be for local authorities and their local partners to determine.

PROPOSAL 4
Target less prosperous regions and local economies

An effective regional policy requires resources to be targeted at the local economies most in need of growth and jobs. The jam is spread too thinly at the moment and does not do enough to narrow local and regional differences in economic well-being.

The EU Structural Funds coming to the UK have been directed at less prosperous areas but in practice the allocation across the country has been problematic. This is partly because of the EU's crude three-fold categorisation of regions ('Less developed', 'Transition' and 'More developed'), partly because the EU uses large building blocks (NUTS 2 regions) and partly because historic levels of EU aid can drive contemporary allocations.

At least two areas – Merseyside and South Yorkshire – lost out badly and unfairly because of the inept way EU aid was allocated in the present spending round. In the wake of Brexit there is the opportunity to make a fresh start.

This is not the place to propose detailed criteria but a number of points are worth logging:

- Dividing up the UK into two or three categories on the basis of a single economic indicator is too crude
- There are big variations in prosperity within as well as between UK regions
- There is plenty of up-to-date local and regional data on which to base allocation decisions
- Financial allocations, and the criteria on which they are based, should be transparent
- Whether a locality happens to have a directly-elected mayor is not a guide to economic need or to the ability to spend monies sensibly and effectively

Above all else, what is important is that there is strong discrimination in favour of the less prosperous parts of the country, including older industrial Britain.

PROPOSAL 5
Better rules on financial support to companies

The EU rules on aid to companies have become unduly restrictive, obstructing financial support towards the cost of projects that create or protect jobs in less prosperous areas.

Whilst the extent to which EU State Aid rules may continue to apply to the UK remains uncertain, it would be helpful for the UK government to aim to deliver a post-Brexit framework that addresses the shortcomings of the present rules:

- The **scale of support** allowed in the UK should reflect the scale of regional disparities in the UK, not comparisons between UK and EU regions
- **Aid intensity ceilings** should be set at levels that are sufficiently high to make a difference to company decisions – the present 10 per cent ceiling for larger companies (250+ employees worldwide) in most UK Assisted Areas is simply too low
- For larger firms in most UK Assisted Areas, the EU rules effectively prohibit support for **re-investment in existing plants**
- A higher **'de minimis' ceiling** on aid requiring official notification would increase the flexibility to support smaller firms in particular
- The **population coverage** of the UK Assisted Area map should reflect the geographical extent of economic disadvantage – at 24 per cent the current coverage is too low
- The UK Assisted Area map should be **drawn flexibly** to reflect realities on the ground – not shoe-horned by EU rules into artificial units of 100,000 population

Investment aid to companies is an important tool of regional policy and complements more indirect support through spending on infrastructure, skills and R&D. It needs to be properly policed to ensure 'additionality' (that it is only given to projects that would not otherwise have gone ahead) and to ensure fair competition, but Brexit provides an opportunity for significant improvement.

Getting the post-Brexit rules right is the first step. What the Westminster Government and the devolved administrations then need to do is ensure that funding streams are in place to take advantage of the rules and deliver the financial support that is needed.

Within reasonable limits, the UK should be able to support firms in its own regions with its own money.

PROPOSAL 6
Align a wider range of public spending with post-Brexit regional policy

The reform of UK regional policy in the wake of Brexit is fundamental. With radical change unavoidable, it is worth seizing the opportunity to design a more comprehensive approach to promoting development in Britain's less prosperous areas.

Confining regional development to a 'silo' lessens its effectiveness. For too long, regional policy has been treated as the responsibility of a couple of Westminster departments and their opposite numbers in Edinburgh and Cardiff. This has led to unacceptable outcomes. It has meant for example that per capita spending on transport in London and the South East has stayed far ahead of the level in other regions, and that promotion of the UK's science base has ended up favouring places like Oxford, Cambridge and London.

The **whole of government** needs to take responsibility for regional development. This means subjecting a wide range public spending to scrutiny in terms of its impact on local and regional growth. It is perverse, for example, to subject local authorities in older industrial Britain to the largest cuts in central government funding or to allocate large sums from the Local Growth Fund to parts of England where the economy is already strong.

A manifestation of the silo approach has been the perpetual struggle to find adequate **matching finance** to go alongside the EU contribution to projects. The quality and effectiveness of projects has been compromised because too often they have been given the go-ahead not because they offer the best results but because it is possible to cobble together matching finance. In particular, cash-strapped local authorities in Britain's older industrial areas have been frozen out.

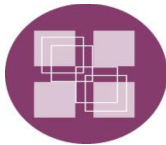
Aligning a wider range of public spending with post-Brexit regional policy would deliver a quantitative and qualitative boost to its effectiveness.

Concluding remarks

Brexit raises a complex range of issues across much of UK policy-making but it also opens up major opportunities for UK regional policy, its governance and effectiveness.

The disparities in prosperity across the UK have not gone away – in fact, the evidence is that they have grown over the last twenty years, and older industrial Britain mostly lags behind.

As the UK leaves the EU, the challenge is not to create a huge gap in regional development but to maintain momentum and to deliver post-Brexit policies that reflect the needs of less prosperous parts of the country and help build the economy the UK needs for the next decade and beyond.



The Industrial Communities Alliance is the all-party association representing some 60 local authorities in the industrial areas of England, Scotland and Wales.

The Alliance was formed in 2007 by the merger of the longer-standing associations covering coal and steel areas and also includes a wide range of other industrial areas.

The aim of the Alliance is to promote the economic, social and environmental renewal of the areas covered by its member authorities. The Alliance works with the governments and parliaments in London, Edinburgh and Cardiff, with development agencies and with its own member authorities.

Alliance Secretariat, 1 Regent Street, Barnsley, S Yorkshire S70 2EG
Tel: 01226 200768
Email: natsec@ccc-alliance.org.uk
www.industrialcommunitiesalliance.org.uk

Industrial Communities **Alliance**

National Secretariat
1 Regent Street, Barnsley, S Yorkshire S70 2EG

Tel: 01226 200768
Email: natsec@ccc-alliance.org.uk
www.industrialcommunitiesalliance.org.uk