BREXIT AND REGIONAL DEVELOPMENT IN THE UK: WHAT FUTURE FOR REGIONAL POLICY AFTER STRUCTURAL FUNDS?

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Introduction

The results of the EU referendum showed profound spatial differences in opinion across the UK. Inequality has been widely discussed as a major factor explaining these differences, with some of the highest shares of the Leave vote in areas experiencing greatest economic difficulty, especially in northern England and Wales. The UK Government appears to share this view, with the new Prime Minister making a series of political commitments to address inequality. The new industrial policy of the renamed Department of Business, Energy & Industrial Strategy includes recognition of the 'importance of place'.

The question is how the rhetoric will be translated into practice. A once powerful domestic UK-wide regional policy has been largely whittled away, with divergent approaches to regional development following devolution and the disappearance of regional development institutions and instruments, superseded by local and urban initiatives with variable resources, coherence or permanence. The one policy that has been maintained over the long term - EU Structural Funds – which is currently providing an allocation of £10 bn of EU funding to the UK over the 2014-20 period -- will be phased out as part of Brexit.

The loss of EU Structural Funds will significantly affect the Less-Developed Regions of West Wales & The Valleys and Cornwall & the Isles of Scilly, as well as the former industrial regions that were major beneficiaries of EU funding, not least those that could have anticipated significantly more EU receipts after 2020, such as Tees Valley and Durham. While the UK Government has guaranteed funding for any Structural Funds projects approved until the UK leaves the EU, it has not made any commitments to replacement funding for recipient regions thereafter.

Resources are not the only issue. EU Cohesion Policy provided stability through multi-annual programmes, promoted a strategic and integrated approach to development and required partnership-working between central and subnational levels of government. Although the technical administration of EU funding has become increasingly complex and prescriptive, its disappearance will leave a void. The UK Government and Devolved Administrations have a challenge, if they seek to replace this EU policy, of deciding whether and what aspects of the EU funding regime should be retained as part of any successor policy framework.

The domestic context for future regional development policymaking in the UK is characterised by a complicated patchwork of territorially focused interventions. These include the devolution deals agreed or under negotiation in England, the future of the 'Northern Powerhouse', the 'Midlands Engine', Local Enterprise Partnerships, Enterprise Zones, and the remaining regional/local growth funding. The first policy thinking on a new industrial strategy was provide by the 2016 Autumn Statement from the UK Chancellor, signalling more attention and investment in regional infrastructure, enterprise and productivity. Less clear is the extent to which the UK Government's policy approach to regional and local issues will be one of continuity or radical change.

Questions about territorial responses to inequality have also been asked by the Devolved Administrations in recent years. In Scotland, the 2016 SNP programme for government prioritised 'inclusive growth' including action to address regional economic inequalities, and the current Enterprise and Skills Review in Scotland includes consideration of the appropriate regional/local scale of future economic development intervention. The existing development strategies for Wales and Northern Ireland both recognise the need for sub-regional balance and to address specific regional and local requirements.

This chapter explores these issues in more detail. It begins by reviewing the evidence for the importance of territorial inequality in the outcome of the EU referendum, and then discusses the role and importance of EU Structural Funds in the UK, past and present, before considering the future of domestic approaches to regional and local development.

Brexit and territorial inequality

The EU referendum showed clear divides among voters by age, education, employment and social class – and by area. While the UK as a whole voted Leave, there were sizable majorities for Remain in Scotland, Northern Ireland, London and Gibraltar (see Table 1).

Table 1: Regional votes to Remain or Leave

	Remain	Leave
England	46.8%	53.2%
Northern Ireland	55.8%	44.2%
Scotland	62.0%	38.0%
Wales	47.5%	52.5%
England's NUTS 1 regions		
South East	48.2%	51.8%
London	59.9%	40.1%
North West	46.3%	53.7%
East	43.5%	56.5%
South West	47.4%	52.6%
West Midlands	40.7%	59.3%
Yorkshire and Humberside	42.3%	57.7%
East Midlands	41.2%	58.8%
North East	42.0%	58.0%
Gibraltar	95.9%	4.1%

Source: http://www.bbc.co.uk/news/uk-politics-36616028

Several initial analyses of voting patterns since the referendum have argued that territorial inequality is a major explanatory factor of the referendum outcome. In England, voting in favour of EU membership was higher in affluent areas in and around London, notably along the M4 corridor, as well as in university cities – Bristol, Manchester, Oxford, Cambridge, Norwich and York (Savage and Cunningham 2016). Those areas with lower median wages, low levels of skills, lack of opportunities and higher levels of poverty were significantly more likely to vote Leave (Bell and Machin 2016; Darvas 2016; Goodwin and Heath 2016). Goodwin (2016) concluded that "Brexit drew most of its strength from voters who have felt left behind by the rapid economic transformation of Britain, or more accurately of London and south east England".

The impact of migration may also be a factor. While large number of migrants in an area do not appear to be associated with a higher propensity to vote Leave (areas with the highest proportion of migrants voted predominantly Remain), the rate of change in migrant numbers seems to be influential (Becker et al 2016). Carozzi (2016) finds that "places that experienced a larger relative increase in migration between 2001 and 2011 disproportionately supported leaving the EU". The town of Boston is regarded as emblematic: the town with the highest proportion of Leave voters has experienced both significant economic deprivation and a steep increase in migration from Central and Eastern Europe since 2004 (Goodwin 2016).

Economic inequality may only be part of the story. Analysis by Savage and Cunningham (2016) shows that social capital – people's social networks - is the strongest predictor of referendum voting patterns. They argue that it is entrenched unequal access to a combination of economic, social and cultural capital in a country with low intergenerational mobility that explains the maps of Leave and Remain.

The results also need to be seen in the wider political context and dynamics of the referendum. One issue is the way that the respective campaigns in the referendum utilised concerns about economic situation and migration. As Mourlon-Druol (2016) notes: "the wealth-immigration-EU link was used as a means to explain economic and social discontent." However, those receptive to this and other Leave messages were not exclusively in the more deprived areas of the UK. Many people who voted Leave were in the middle classes and lived in the Midlands and South of England (Dorling 2016) and were significantly motivated also by other factors such as national identity, values and attitudes to the EU (Ashcroft 2016; Korski 2016).

The results in Scotland and Northern Ireland – where turnouts were the lowest in the UK but both voted to remain – also indicate the importance of different factors. The influence of social divisions on voting patterns in Scotland is said to be similar to England and Wales, but "in a country where UKIP has little resonance and where a pro-European SNP has come to dominate the political landscape, views that elsewhere disinclined many a voter to back Remain had less impact north of the border" (Curtice 2016).

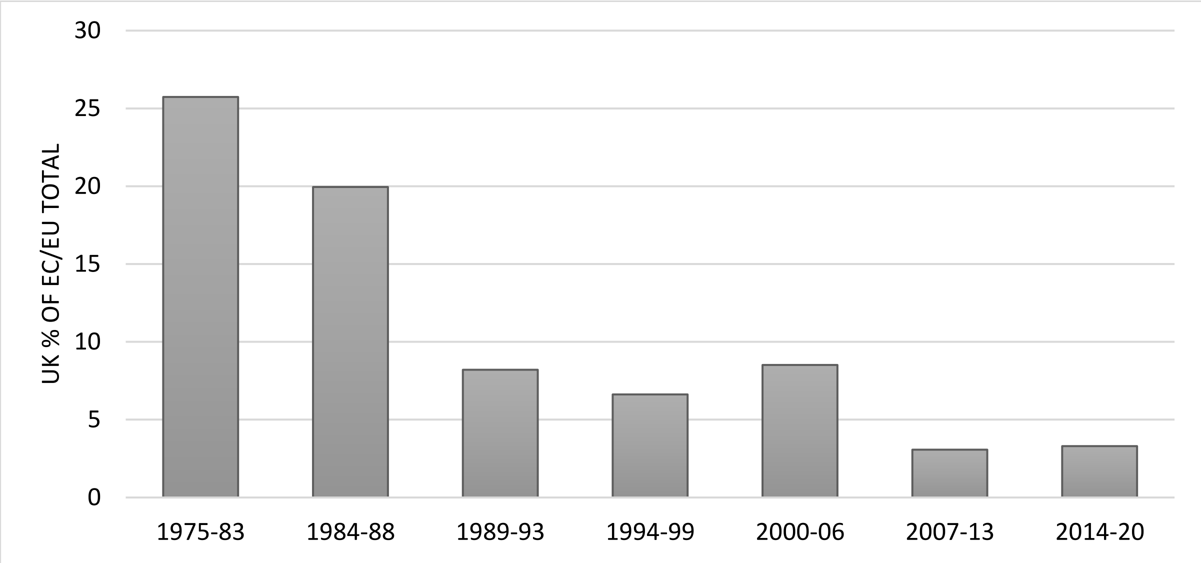
Clearly, the role of inequality in explanations of the referendum results needs further research. However, whatever the causal factors, policymakers need to consider how they respond to a highly unequal country. Recent Eurostat data indicate that London has a regional GDP per head (PPS, EU28=100) of 186 against a national average of 109, with figures of 525 for Inner London West and 204 for Inner London East (Eurostat 2016). Darvas and Wolff (2016) have shown that the UK has the highest level of income inequality and lowest level of inter-generational social mobility in the EU. Moreover, while regional disparities in the UK are high and have increased over the past decade, they are part of a longer standing historical problem of spatial economic imbalance (Martin et al 2015; McCann 2016). The next sections turn to the question of policy responses, first the contribution of EU Structural Funds and then the post-Brexit future of regional policy in the UK.

What have EU Structural Funds done for us?

Structural Funds have been an important part of the UK regional policy environment for 40 years. The creation of the European Regional Development Fund (ERDF) in 1975 was a product of British accession to the EEC, partly to offset UK budgetary contributions and to address the major problems of industrial restructuring in the UK.

The early ERDF funding accounted for only five percent of the EEC budget and was initially allocated under a quota system, providing funding for projects in the assisted areas of national regional policies. In the United Kingdom, which had a quota allocation of c.28 percent of the Community total (second only to Italy), virtually all the assistance was used to co-finance projects funded by the British regional policy measures of the time, Regional Development Grant and Regional Selective Assistance, in the Special Development Areas and Development Areas. The UK continued to be eligible for an average of 20-25 percent of the budget through the various reforms up to the mid-1980s, bringing the UK some 600 million ECU per year in the mid-1980s, equivalent to c.£1 billion per year in 2016 prices (Vanhove 1999; Bachtler et al 2013).

Figure 1: UK share of EC/EU Cohesion policy appropriations, 1975-2020



Note: shares are for ERDF up to 1988, thereafter for all Structural Funds 1999-2020.
Source: ERDF annual reports, Bachtler et al (2006, 2013), Mendez et al (2013).

When a geographical prioritization of support (based on a GDP per head threshold of 75 percent of the EC average) was introduced in 1984, Northern Ireland was one of the 'priority regions', along with southern Italy, Greece and Ireland. Scotland was another big beneficiary; during the first ten years of the ERDF (1975-84), it was the third highest recipient of Community aid (after Campania and Sicilia), receiving 6.4 percent of all Community assistance for ERDF support measures and worth 744 million ECU equivalent to 247 ECU per head. Other UK industrial regions – North, Midlands, Wales – were also receiving over 200 ECU per head from the ERDF. The UK was similarly to the fore when the first experimentation with a programme approach was introduced in the mid-1980s. The UK was a beneficiary of 30 percent of the funding allocated to the new National Programmes of Community Interest, with the NPCI for Glasgow receiving the largest single EC allocation of funding (92.3 million ECU), and other substantial programmes were approved for Tayside, Mid-Glamorgan, Teeside, Birmingham and West Lothian in the 1986-7 period (European Commission, 1987; 1989).

The scale and role of EC funding in this period cannot be underestimated. The 1983 Regional Development Act had significantly downgraded the profile and resources of domestic regional policy stating that *"Although an economic case for regional policy may still be made, it is not self-evident….Expenditure on regional policy imposes a burden on taxpayers throughout the country through either high taxation or increased Government borrowing which crowd out other activities in the economy generally"* (HMSO 1983). Indeed, without the need for UK co-financing of ERDF programmes, it is likely that much of the remaining regional and industrial policy intervention of the time would have been largely abolished.

Following the reform of the Structural Funds in 1988, Cohesion Policy funding was allocated to Member States according to EU criteria for multiannual periods of 5-7 years. Allocations were initially based on regional eligibility:

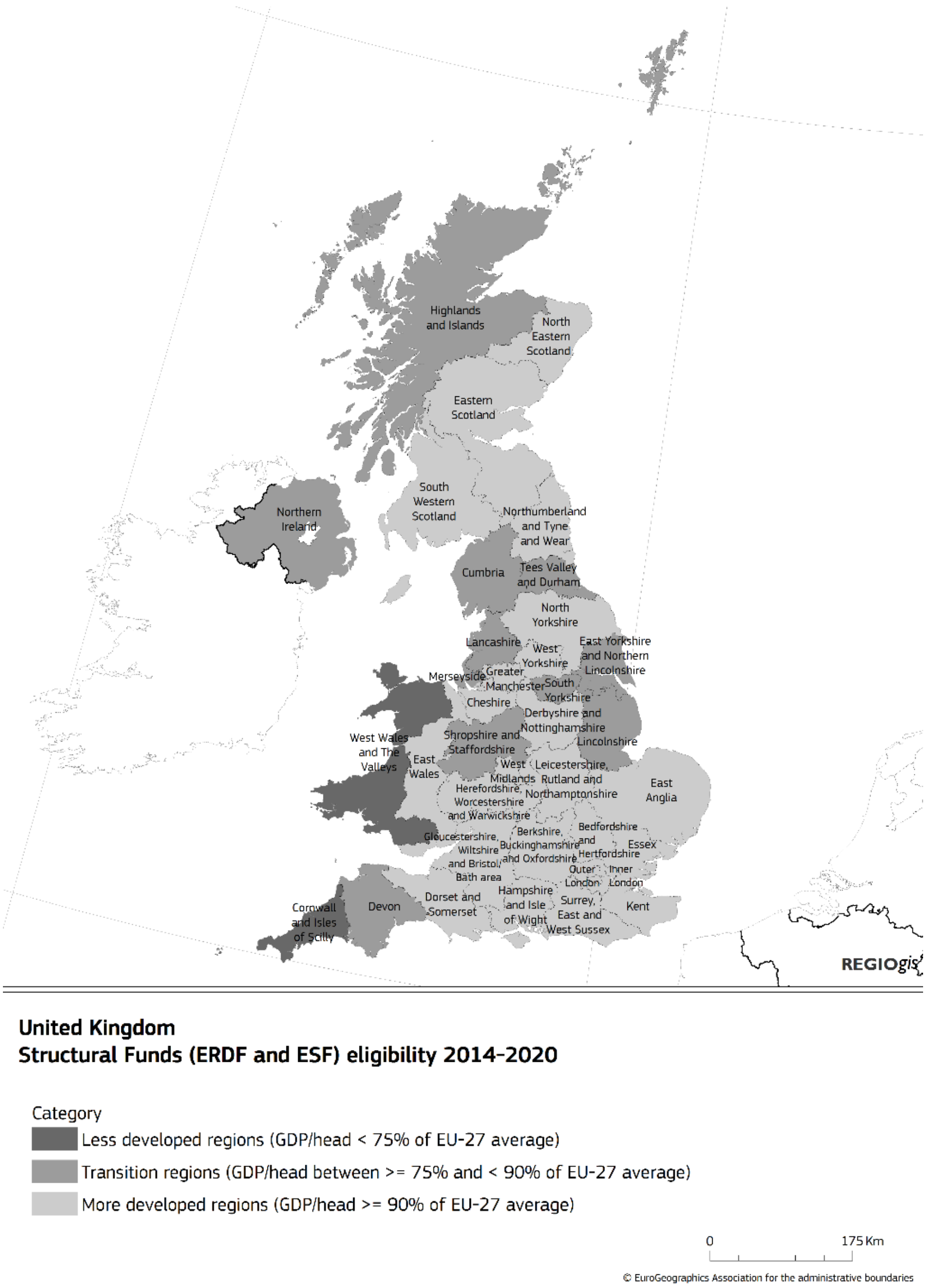
(a) Objective 1 - lagging regions with a GDP per head below 75 percent of the EU average - subsequently termed Convergence and then Less-Developed Regions;

(b) Objective 2 - industrial restructuring regions designated principally on the basis of (un)employment criteria - later called Regional and Competitiveness and then More-Developed Regions;

(c) Objective 5b - regions experiencing rural underdevelopment, based on agricultural employment/income and GDP (merged with Objective 2 from 2000 onwards).

During the 1990s, over 40 percent of the UK's population were in these designated areas – Northern Ireland, Merseyside and Highlands & Islands under Objective 1, all the old-industrial areas of northern England, the Midlands, south Wales and Western Scotland (Objective 2), and the rural areas of northern and western England, central Wales and Scotland (Objective 5b). Preparations for EU enlargement in the early 2000s led to cuts in the coverage of eligible areas in the EU15, although the UK still had almost a third of the national population in designated Objective 1 regions (Cornwall, South Yorkshire and West Wales and the Valleys) and Objective 2 areas.

Figure 2: Structural Funds areas in the United Kingdom, 2014-20



Source: DG Regio

From 2007 onwards, Structural Funds became available to all regions in the UK, but with a continued focus on the lagging (now Less-Developed) areas with higher rates of award and aid intensity. The all-region approach has continued into the current 2014-20 period (see Figure 2), though with only Cornwall & Isles of Scilly and West Wales & The Valleys being designated as lagging regions (now More-Developed Regions). The temporary transitional arrangements that had characterized every previous period for de-designated regions has now been formalised with a specific category of Transition Regions which also have higher rates of award.

Funding flows are difficult to identify because of differences between initial allocations at the start of a funding period and the eventual outturn of expenditure; allocations in national currencies also varied in line with exchange rate changes. Nevertheless, the data in Table 2 below indicate that allocations to the UK Structural Funds over the 1989-2020 period have amounted to at least €55 bn. Given that the EU funding has needed to be co-financed with at least 25 percent of national (public/private) funding in Objective 1 regions, and 50 percent in other regions, the total economic development expenditure associated with Structural Funds in the UK over the 1989-2020 period could approach €100 bn.

Table 2: Estimated Cohesion policy allocations to the UK, 1989-2020 (€ million, constant prices)

	Regional allocations			**Other funding**		**Total**
1989-93	**Objective 1**	**Objective 2**	**Objective 5b**			
	1,359	4,442	600			**6,401**
1994-99	**Objective 1**	**Objective 2**	**Objective 5b**			
	3,521	3,196	1,219			**7,936**
2000-06	**Objective 1**	**Objective 2**		**Objective 3**	**FIFG**	
	6,960	5,460		6,253	166	**18,839**
2007-13	**Convergence**	**Phasing/out**	**RCE**	**ETC**		
	3,056	126	6,712	806		**10,700**
2014-20	**LDR**	**Transition**	**MDR**	**ETC**		
	2,383	2,617	5,768	865		**11,633**
Total						**55,510**

Sources: Bachtler et al (2013). Inforegio website.
Note: the figures are based on allocations at the start of each period and may not equate to actual expenditure. RCE: Regional Competitiveness & Employment; LDR: Less-Developed Regions; MDR: More-Developed Regions; ETC: European Territorial Cooperation. FIFG: Financial Instrument for Fisheries Guidance (non-Objective 1).

Importantly, the regional distribution of EU funding in the UK ensures that poorer regions (and poorer localities) receive higher per capita shares of the Structural Funds (see Table 3). During the 2014-20 period, the highest allocations are to Wales (€788 per head), Northern Ireland (€338), North East England (€285) and South West England (€283) (SPERI, 2016).

Table 3: Regional allocations of Structural Funds in the UK, 2014-20

	Combined ERDF and ESF allocations (€m)	**Per capita combined ERDF and ESF allocations**
	2014-2020	**2014-2020**
East of England	387	66
East Midlands	598	132
London	762	93
North East	739	285
North West	1132	161
South East	286	33
South West	1495	283
West Midlands	909	162
Yorkshire and Humber	794	150
Scotland	895	169
Northern Ireland	513	338
Wales	2412	788
England	6937	131
Total United Kingdom	**10858**	**172**

Source: UK Parliament House of Commons Written Answers 32053 (22.3.16) and 33071(8.4.16); SPERI (2016)

The governance of Structural Funds in the UK has been 'dynamic', associated with more institutional change over the period since 1989 than in any other Member State (see Table 4).

The first round of programmes for the 1989-93 period were largely drawn up in Whitehall (according to a set template for all the English programmes) and the Northern Irish, Scottish and Welsh Offices respectively but with (at least some) participation of regional and local 'partnerships'. For 1994-99, the programming and management of funding in England was decentralised to regional Government Offices, allowing more regional specificity to be introduced – and encouraged by an activist DG XVI in the European Commission that was keen to 'bypass' Whitehall control of the Funds. During the 1990s, Scotland used an innovative partnership-based model for delivering Structural Funds, also encouraged by DG XVI, based on programme management executives (PMEs) that were steered by local authorities, colleges and other sectors, although the Scottish Office was responsible for claims and payments.[1] A shorter-lived PME – the Welsh European Programme Executive – was used during this period in Wales.

In some respects, the late 1990s and early 2002 were a more favourable period for EU funding in the UK. The incoming Labour Government used a report by former EU Commissioner Bruce Millan to redesign a regionalised institutional framework for regional policy – based around regional development agencies (RDAs) and regional strategies – that was more conducive to the programming and management of Structural Funds. Thus, further decentralization in England took place with the transfer of Structural Funds responsibilities to the RDAs for the 2000-6 period.

However, the RDAs were summarily abolished in 2010-12 in favour of re-centralised management by the UK Department of Communities & Local Government. ERDF in 2014-20 is now managed through national programmes in England with delivery at a sub-regional scale through Local Enterprise Partnerships. Following devolution to Scotland and Wales, the functions of the PMEs were progressively rationalised (reducing them from five to two in Scotland) and eventually subsumed into

[1] These comprised one PME for ESF and four regional PMEs for ERDF- Strathclyde European Partnership, East of Scotland European Partnership, South of Scotland European Partnership, Highlands & Islands Partnership Programme

the Devolved Administrations of the Welsh Government (Welsh European Funding Office) and Scottish Government (Structural Funds Division). Northern Ireland had relatively more stability with management being undertaken by the Northern Ireland Office - Department of Finance and Personnel – until devolution after which management functions were exercised by the Department for Enterprise, Trade and Investment, renamed as the Department for the Economy.

Table 4: The evolving governance of Structural Funds (ERDF & ESF) in the United Kingdom

	England	Northern Ireland	Scotland	Wales
1989-93	Department of Trade & Industry & Department of the Environment (DoE)	Department of Finance & Personnel	Scottish Office	Welsh Office
1994-99	Regional Government Offices DoE, then Office of the Deputy Prime Minister (ODPM)	Department of Finance & Personnel	Programme. Management Executives (PMEs) - 5 Scottish Office	Welsh Office Wales European Partnership Executive
2000-06	Regional Development Agencies OPDM	Department of Finance & Personnel	PMEs – 5 Scottish Government	Welsh Government (Wales European Funding Office, WEFO)
2007-13	Regional Development Agencies Dept of Communities & Local Government (DCLG) Local Enterprise Partnerships	Department of Enterprise, Trade & Investment	Scottish Government PMEs - 2	Welsh Government (WEFO)
2014-20	DCLG Local Enterprise Partnerships	Department for the Economy	Scottish Government	Welsh Government (WEFO)

The use of Structural Funds in the UK has also evolved in line with changing concepts of regional development and EU priorities. In the first 1989-93 programme period, the focus was predominantly on generic forms of business aid and infrastructure, reflecting the UK regional and industrial policy priorities of the time. As in most other Member States, strategic thinking was limited, and the programmes were seen as a vehicle for drawing down EU funding. For the 1994-99 period, the Commission used new regulatory provisions to conduct its own ex ante evaluation of the UK programme proposals and encourage (or oblige) UK authorities to take more strategic approach to Structural Funds, including a greater focus on R&D and SME development and pioneering support for community economic development.

Table 5: Division of UK financial resources for the 2007-13 period by theme, at start (2007) and closure (2016) of programme (ERDF only, € million)

Category	2007	2016
1.Innovation & RTD	2224.2	1795.0
2.Entrepreneurship	559.0	462.6
3.Other investment in enterprise	442.7	665.4
4.ICT for citizens & business	313.1	301.6
5.Environment	350.2	405.4
6.Energy	280.6	330.8
7.Broadband	85.5	266.3
8.Road	59.0	253.1
9.Rail	62.9	65.4
10.Other transport	246.4	169.5
11.Human capital	4.0	4.0
12.Labour market	48.3	28.9
13.Culture & social infrastructure	71.1	73.3
14.Social inclusion	41.0	10.1
15.Territorial dimension	456.2	451.8
16.Capacity building	2.0	2.0
17.Technical Assistance	169.8	101.6
Total	**5416.0**	**5386.9**

Source: Applica and Ismeri Europa (2016).

The 2000s saw a major shift in the use of Structural Funds in the UK, as elsewhere in the EU. Funding priorities became more prescriptive, initially with a requirement to focus on innovation, and, from the early 2000s onwards, governed by the objectives of the Lisbon and Gothenburg strategies (growth and jobs, and sustainable development). Indeed, for 2007-13, minimum levels of spending had to be 'earmarked' for Lisbon priorities, albeit formulated in general terms. The main effect was to reduce significantly spending on infrastructure and increase radically the allocations to innovation, enterprise and the green economy (see Table 5). In the current 2014-20 period, the use of the Funds has been subject to still more direction from the EU level. With Cohesion policy being used as a 'delivery vehicle' for Europe 2020 goals,[2] UK and other programmes have been required to allocate funding to specific thematic objectives, with minimum amounts allocated to RTDI, SME competitiveness, low-carbon and social inclusion.

A distinctive element of Structural Funds in the UK affected by Brexit is European Territorial Cooperation. With an EU allocation of €865 million, the UK is involved in 14 ETC programmes (see Table 6), primarily with neighbouring countries. Interreg programmes are one of the accepted areas of 'European added value', and while the economic outcomes are sometimes difficult to evaluate, research indicates that they provide valued opportunities for regional, local and community organisations and the private sector to develop joint projects on common areas of interest, as well as providing an international dimension to regional and local development thinking and practice (Mirwaldt and McMaster 2008, Hörnström 2012, ADE 2016).

[2] http://ec.europa.eu/europe2020/targets/eu-targets/index_en.htm

Table 6: European Territorial Programmes 2014-20 with UK involvement

Programme	Area	Allocation € million
Two Seas	South West, South East and East of England, coastal parts of France (Channel, North Sea), Flanders and Netherlands	€257
Interreg VA France-England	South West, South East and East of England and Finistere to Pas-de-Calais in France	€223
Interreg VA Ireland-N.Ireland-Scotland	South Western Scotland, Highlands & Islands, Northern Ireland, and Border Midlands Western region of Ireland	€240
Interreg VA Ireland-Wales	West Wales and the Valleys, East Wales and Southern and Eastern region of Ireland	€79
Northern Periphery and Arctic	Highlands and Islands, Northern Ireland, western and northern parts of Ireland, Norway, Sweden and Finland, and Faroe Islands, Greenland, Iceland and Canada	€50
North Sea	Eastern parts of the UK, Norway and Denmark, parts of Flanders, North Western Germany, North Western Netherlands and South Western Sweden	€167
Atlantic Area	western parts of England and Wales, Ireland, Portugal, Northern Ireland, Scotland, France and Spain	€140
Ireland-UK PEACE IV	Northern Ireland and Border Midland Western region of Ireland	€229
North West Europe	Whole of the UK, Ireland, Belgium, Luxembourg, Switzerland and most of Germany, Netherlands and Northern France	€396
South West Europe	Gibraltar, Portugal, Spain and south-west France	€107
Interreg Europe	all EU Member States, plus Norway and Switzerland	€359
INTERACT, URBACT, ESPON 2020	Research, information exchange and best-practice sharing for all EU countries (INTERACT), plus Norway and Switzerland (URBACT) plus Iceland and Liechtenstein (ESPON 2020)	€159

Source: Department of Business, Energy & Industrial Strategy.

Looking forward, if the UK had voted to stay in the EU, the country could well have claimed a larger proportion of the Cohesion policy budget after 2020 given the relatively poorer performance of UK regions in an EU context in recent years. Over the 2008-14 period, Eurostat data show a decline in regional GDP per head (PPS) as a percentage of the EU28 in every NUTS region in the UK with the exception of Inner and Outer London (which increased) and Cumbria, Herefordshire, Worcestershire and Warwickshire, and West Wales & The Valleys (which stayed static).

This would imply significant shifts in the eligibility status of UK regions for Structural Funds (see Table 7). A comparison of eligibility at the start of the current 2014-2020 period and the equivalent based on the latest data shows that nine regions (with a population of 16.2 million people) would move downwards into a lower category of eligibility: eight of them would be redesignated from More-Developed Regions (MDR) to be Transition Regions and one (Tees Valley and Durham) would become a Less-Developed Region (LDR). Three regions have improved relative to the EU average sufficiently to have a higher eligibility status: Cumbria and the Highlands & Islands would move from Transition Region to MDR region status; and Cornwall & the Isles of the Scilly would move out of the LDR category.

Table 7: Shifts in UK regional eligibility based on 2012-14 GDP per head data

Region	Eligibility (current)	Eligibility (new)	Change	Pop (mill, 2014)
Cumbria	TRANS	MDR	↑	0.50
Cornwall & Isles of Scilly	LDR	TRANS	↑	0.55
Highlands and Islands	TRANS	MDR	↑	0.47
Tees Valley and Durham	TRANS	LDR	↓	1.18
Northumberland, Tyne & Wear	MDR	TRANS	↓	1.43
Derbyshire & Nottinghamshire	MDR	TRANS	↓	2.15
West Midlands	MDR	TRANS	↓	2.81
Essex	MDR	TRANS	↓	1.77
Outer London (East, N.East)	MDR	TRANS	↓	1.84
Kent	MDR	TRANS	↓	1.78
Dorset and Somerset	MDR	TRANS	↓	1.30
South Western Scotland	MDR	TRANS	↓	2.34

Note: MDR=More-Developed Regions; TRANS=Transition Region; LDR=Less-Developed Region.
Source: Bachtler, Mendez and Wishlade (2016).

While the scale, governance and use of Structural Funds in the UK are clear, the effectiveness of the funding is more contested. The UK Structural Funds programmes are very small compared to the size of the UK economy, making up only around 0.1 percent of UK GDP (HM Government 2012). Consequently, the overall impact of Structural Funds spending has been minor. However, the relative importance of Structural Funds resources as a proportion of regional GVA varies widely: those regions in the highest category of eligibility (currently Cornwall & Isles of Scilly and West Wales & The Valleys, previously South Yorkshire, Merseyside, Northern Ireland and the Highlands & Islands) and some old-industrial regions have gained much higher amounts of ERDF investment per capita or unit of GVA (Regeneris 2013).

Ex post evaluations have been undertaken by the European Commission at the end of each programme period. Evaluations of ERDF for the most recent programme periods (2000-06 and 2007-13) found that Structural Funds interventions in the UK were associated with significant numbers of new and safeguarded jobs, land redevelopment, increases in SME turnover, innovation projects, training and skills development, the creation of community enterprises and other results. (Applica et al, 2009; Applica and Ismeri Europa 2016).

Specifically, for the 2007-13 period, Applica and Ismeri Europa (2016) concluded that ERDF support up to end of 2014 led directly to the creation of over 152,000 jobs, over 29,000 of them in SMEs and around 3,800 in research (see Table 8). These were the result, in part, of the support to almost 1,800 RTD projects and over 7,300 cooperation projects between enterprises and research institutes, while over 52,700 businesses were helped to start up. Additional investment supported is estimated to have increased GDP in the UK in 2015 by 0.1 percent over and above what it would been in the absence of the policy, even allowing for the contribution made by the UK to its financing. The evaluation further estimated that GDP will be 0.2 percent higher in 2023 as a result of the investment concerned.

A UK evaluation for ERDF in England conducted before the end of the 2007-13 period found similar orders of magnitude for job-creation (Regeneris 2013). Based on programme interim and final evaluations, the analysis concluded that the English ERDF programmes had created around 58,000 gross jobs and safeguarded 59,500 jobs in the period. Project managers expected a further 47,920 jobs to be created by 2013-15 (Tyler 2013). The median ERDF cost per gross job across all programmes was calculated as £23,000 for jobs created and £15,000 for jobs safeguarded – though with wide variation across programmes and projects.

Evaluations of the European Social Fund (ESF) also present a varied picture. Overall, ESF in England is said to have overachieved in terms of the absolute number of results achieved, including 257,000 people gaining basic skills against a target of 201,000; 688,000 participants being in work on exit against a target of 201,000; and 1.1 million being in work six months after exit compared to a target of 238,000 (Kearney and Lloyd 2016). An impact analysis completed in 2011, based on data from the first half of the 2007-13 programme period, suggested that ESF had been successful in contributing towards reducing regional differences in employment rates and skill levels, largely driven by more provision being available in areas with low employment rates, but the impacts on Job Seeker Allowance claimants (the largest claimant group) were small (Ainsworth *et al.* 2011). An evaluation of the net impacts of ESF employment provision on the benefit receipt and employment rate of participants in England found ESF provision to be effective for Incapacity Benefit and Employment Support Allowance participants over the 52 weeks following participation (Ainsworth and Marlow 2011). Positive evaluation findings were also found in Scotland, where a survey of ESF training support for unemployed and economically inactive people was largely an effective route towards employment for participants (Hall Aitken 2012).

Table 8: Reported values of core indicators of ERDF programmes in the UK, 2007-13 (at end 2014)

Core Indicator	Value up to end 2014
Aggregate Jobs	152,219
Jobs created	150,339
Number of RTD projects	1,798
Number of cooperation projects enterprises-research institutes	7,341
Number of research jobs created	3,877
Number of direct investment aid projects to SMEs	2,344
Number of start-ups supported	52,759
Number of Jobs created in SMEs (gross, full time equivalent)	29,124
km of new roads	13
km of new TEN-T roads	7
km of reconstructed roads	11
km of new railroads	2
km of TEN-T railroads	2
km of reconstructed railroads	2
Area rehabilitated (km2)	1
Number of jobs created in tourism	462

Source: Applica et al (2016)

Notwithstanding these reported outcomes, meta-reviews of research on the effectiveness of Structural Funds have not always been conclusive, finding difficulty in identifying the specific contribution of the Funds (Polverari and Bachtler 2014; EPRC 2010). On the one hand, the performance of UK assisted areas over the past two programme periods has been mixed and no significant catching-up can be observed across all regions. Also, additionality is difficult to establish, as Structural Funds have generally been used in the UK to fund similar forms of intervention to those which are domestically-funded, and it is not evident that outcomes and impacts achieved are significantly different than for corresponding activity supported with domestic funding.

On the other hand, research has highlighted several areas where EU Structural Funds have resulted in economic development activity being expanded, beyond what would have taken place in the absence of EU funding, especially in the less-developed regions (Regeneris 2013; Polverari and Bachtler 2014; Bachtler et al 2016; Di Cataldo 2016). The EU programmes have entailed a considerable leverage of other funding sources, especially private funds. They brought a significantly higher level of resources to the UK's Objective 1 / Convergence regions and facilitated a more comprehensive effort towards restructuring than is likely to have been made available from any domestic initiative. Thematically, from the mid-1990s, the Funds helped shift the regional development priorities of UK interventions, as well as contributing to the mainstreaming of gender equality, and environmental sustainability, as well as the targeting of community development. The increased focus on financial engineering instruments led to the creation of higher numbers of individual funds (and higher levels of funding) which may be more durable interventions than conventional grant and loan schemes. The Funds also contributed to improved policy-making practices in areas such as strategic planning, partnership-working, monitoring and evaluation.

Overall, however, the challenges that the Funds sought to address in structurally weak regional economies in the UK - low productivity, low entrepreneurship and innovation, high unemployment and worklessness – were so fundamental that EU funding could only be part of the solution. While the Funds had a positive influence, they were often of insufficient magnitude or durability to induce a wider transformation of the regional economy (DCLG 2012; Bachtler et al 2013; Charles and Michie 2013). However, the reduction or interruption of funding may have major implications for regional economic performance (Di Cataldo 2016; Woolford 2016) which brings us to the question of what UK domestic policies will do to promote regional and local growth following the loss of Structural Funds.

Whither UK regional policy after Structural Funds?

Regional policy in the UK predates EU Structural Funds and the UK approach to regional development has continued to evolve independently. It has, though, been influenced in the allocation of resources by the co-funding of EU Cohesion policy and in the provision of regional aid by EU Competition Policy control of State aids, as well as other EU regulatory frameworks such as those relating to public procurement and the environment (e.g. Natura 2000). The challenges for UK policymakers are whether and how to develop a new approach to spatial imbalances in a new political context and without the guaranteed funding but also obligations of EU Cohesion policy.

The post-Brexit political debate has been characterised by discussion of economic and social divisions across age groups, social classes and areas and the appropriate role of government. The UK Prime Minister Theresa May has presented her policy approach as[3] "a country that works for everyone….built on the values of fairness and opportunity", with specific references to spatial imbalance:

> "*within our society today, we see division and unfairness all around……Between the wealth of London and the rest of the country….[we] need to rebalance the economy across sectors and areas in order to spread wealth and prosperity around the country….And we will identify the places that have the potential to contribute to economic growth and become the homes to millions of new jobs….That means inspiring an economic and cultural revival of all of our great regional cities.*"

The renamed Department of Business, Energy and Industrial Strategy (DBEIS) and a new Cabinet Committee for industrial strategy (including the Secretaries of State for 11 departments) are tasked with developing a cross-policy industrial strategy with the stated aim "*to put the United Kingdom in a strong position for the future, promoting a diversity of industrial sectors and ensuring the* ***benefits of growth are shared across cities and regions up and down the country*** *[emphasis added]."*

Of particular note is the (re)emphasis put on 'the importance of place' as a principle informing the development of the UK's industrial strategy by the DBEIS Minister, Greg Clark:

[3] http://press.conservatives.com/

“the truth is economic growth does not exist in the abstract. It happens in particular places when a business…is set up, or takes on more people, or expands its production. And the places in which you do business are a big part of determining how well you can do. And they’re very different places…. Yet for too long, government policy has treated every place as if they were identical…but what is needed in each place is different, and our strategy must reflect that.”

What this means in practice is still unclear, whether it implies continuity with previous policy statements and commitments, as outlined the UK ‘productivity plan’ (HMT 2015), or a new direction. Details are being elaborated in a Green Paper on Industrial Strategy,[4] but, in assessing the regional dimension of the future UK industrial strategy, there are several key issues to consider.

The first concerns the scale of ambition. UK government statements about spatial inequality and the need for rebalancing are not new. The past two decades have seen a succession of White Papers and reviews (see Box 1), in each case expressing concern about the overconcentration of economic activity in south-east England, often taking a year-zero approach of dismissing the historical policy record as largely ineffective, and asserting that the new policy approach will be radically different. Yet, political rhetoric has not been matched by the scale of policy and institutional reform required or the level of resourcing needed. For example, in 2010, the incoming Conservative government’s proclaimed need to rebalance the economy was not associated with a greater commitment of resources for regional and local development, which thereafter were on a downward trend.

Over the period from 2010-11 to 2014-15 spending by the UK Government on local growth programmes in England is calculated as £6.2 billion, just over half of the £11.2 billion spent by the Regional Development Agencies over the previous five-year period 2005-06 to 2009-10 (NAO 2013). Lower spending is not confined to England: identifiable spending on enterprise and economic development in Northern, Ireland and Wales also declined by between 25 and 30 percent. Future spending commitments will need to take account of whether and how to replace the £10 bn currently allocated to regions through EU Structural Funds and crucially whether its regional distribution will follow the EU approach. As Di Cataldo (2016) has shown in a comparison of funding flows in South Yorkshire and Cornwall, the abrupt downgrading or interruption of funding flows (as occurred in South Yorkshire following the loss of Objective 1 status in 2007) has implications for the promising economic trends in Cornwall, West Wales and other regions benefiting substantially from Structural Funds.

More fundamentally, as recent analyses of spatial imbalance have noted (Martin et al, 2015; McCann 2016), regional inequality cannot be adequately addressed within the existing institutional and policy paradigm - by reconfiguring yet again the mix of business and infrastructure support or the delivery system. Arguably, it requires radical reform and decentralization of the institutional structure comprising the UK’s national political economy with respect to governance, finance, taxation and accountability. It is this scale of reform against which the UK’s industrial strategy will need to be judged.

[4] https://www.gov.uk/government/speeches/cbi-annual-conference-2016-prime-ministers-speech

Box 1: UK Government policy statements on regional policy, 1997-2015

Our economy cannot grow as it should while it is so skewed towards London and the south east.... The UK's continued national prosperity depends on cities outside the capital doing better.

Fixing the Foundations, HMT 2015

My proposals are designed to help all regions innovate, grow and increase their absolute wealth. By focusing on raising our performance in every town and city we will return our economy to sustained, long term growth.

Heseltine Review, 2012

Our economy has become more and more unbalanced, with our fortunes hitched to a few industries in one corner of the country, while we let other sectors like manufacturing slide. Today our economy is heavily reliant on just a few industries and a few regions – particularly London and the South East. This really matters.

Prime Minister David Cameron, 2010

Regional policy is at the heart of our efforts to reach this goal – ensuring that economic prosperity reaches every part of the country and that everyone, no matter where they live, has the chance to make the most of their potential. For too long, too many nations and regions of the United Kingdom have been allowed to fall behind; for too long there have been huge differences in prosperity within regions; and for too long too many people have been left out, their talents wasted.

A Modern Regional Policy, HMT/DTI/ODPM, 2003

The new approach will be based on putting greater emphasis on growth within all regions and strengthening the building blocks for economic success by boosting regional capacity for innovation, enterprise and skills development…….Our goal is to increase the rate of growth in all regions by addressing underperformance and building on success.

UK White Paper, DTI, 2001

A second question is how the rationale and objectives for a place-based industrial strategy are conceptualised. For over 30 years, the primary motivation for UK regional policy has been almost exclusively one of economic efficiency, framed in terms of improving the contribution of regions to national growth and 'competitiveness' through investment support for enterprise, innovation and productivity in regions and cities. The traditional commitments to social justice that underpin EU Cohesion Policy and many national regional policies in Europe – that individuals have an entitlement to equal living standards and opportunities wherever they live – has been significantly absent. This is reflected in the narrow terms of the regional economic debate in the UK when assessing the scope, justification and effectiveness of the policy or individual measures.

From an international perspective, the UK is something of an outlier (Davies et al 2015). In Germany, the *Grundgesetz*, or basic law, of the Federal Republic mandates the government to pursue a constitutional goal of equivalent living conditions (*gleichwertige Lebensverhältnisse*) (Bundestag 2010). This provides the rationale not just for regional economic policy but also fiscal equalization systems to ensure equal access to public services. Regional policy in France is similarly grounded in a constitutional provision requiring government measures 'promoting equality between territorial authorities'. State action under the French policy of *aménagement du territoire* has the objective of increasing regional economic competitiveness but also territorial and social cohesion (MEF 2015).

Likewise, the Italian constitution has a commitment to State intervention to promote socio-economic development across the territory to ensure that all citizens, irrespective of where they live, have equal economic and social rights. Thus, regional policy is designed to support both investment and public services, as a means of stimulating more equal economic growth and social opportunities (DSCE 2012; MCT 2014). Regional policies in several other countries – Finland, Norway, Poland, Portugal, Spain, Sweden, Switzerland - have constitutional or policy objectives for balanced development and solidarity that include equal living conditions, access to services, wellbeing or other aspects of social cohesion. For the UK debate on responses to territorial inequality in the UK, therefore, an important issue is whether social cohesion should similarly be part of the mandate of future regional policy.

The third issue for the approach to regional development in the UK is the spatial institutional framework for addressing inequality and specifically how the lack of coherence in territorial development policymaking can be addressed. Over the past two decades, devolution has transferred powers asymmetrically to Scotland, Northern Ireland and Wales. In England, political and policymaking power remains centralised in London. The de-concentration of policy responsibilities to regional government offices in the 1990s, and subsequently the creation of regional development agencies and (indirectly elected) regional assemblies, was reversed over the 2008-12 period with the abolition of all regional governance structures in favour of a 'localist' agenda embodied in Local Enterprise Partnerships based on associations of local authorities. England is the only large country in western Europe that does not have some form of regionalised governance. Across the whole of the UK, local authority powers have also been progressively weakened and subject to more central control over the past four decades.

The UK Government has recently initiated a new phase of devolution in England, notably through the Cities and Local Government Devolution Act 2016 to introduce directly-elected mayors to combined local authorities in England and Wales as a basis for devolving housing, transport, planning and policing powers to this new level. Specific initiatives to invest in transport, science and innovation in northern English cities have also been taken under the heading 'Northern Powerhouse', and similarly for the Midlands ('Midlands Engine'), and City Deals have been agreed with 28 urban areas across the UK in three waves of support. While welcome as a step towards further devolution and greater focus on structurally weak regions, this English devolution process is still in its early days, will not cover all parts of England, and represents significantly less devolution than to Scotland, Wales and Northern Ireland.

These processes are incentivising new strategic thinking at urban level in England, but there are important questions about the relationship of the new city regions with the wider regional context, the transparency of resource allocation, the degree of control of city-region administrations over revenue and expenditure, stability across electoral and budgetary cycles, and accountability to local and regional constituencies (Martin et al 2015; O'Brien and Pike 2015). Of particular concern is the position of smaller cities and towns which have long-standing economic development problems dating back in some cases to the 1980s which are outside the city regions but are important for particular sub-regional or rural economies. In the absence of a coherent regional framework for planning and implementing economic development, these 'economic shadowlands' may be excluded from a city-focused development strategy, lacking the resources to develop their own strategies but also with insufficient political influence and capacity to bid effectively for government funding or make deals.

The mechanisms for coordination and participation are important elements of the emerging structures. One of the underlying principles of Cohesion policy is multi-level governance in programming and implementation, requiring (at least in principle) both vertical coordination between different levels of government and horizontal coordination across government departments and with non-government actors. Strategic reference documents at EU and national/sub-national levels provide a framework for the design and delivery of interventions (emulated in some, less prescriptive domestic equivalents at UK and Devolved Administration levels). The principle of partnership embodied in the EU regulations challenged the centralised, top-down approach to UK regional and industrial development. EU programmes opened the door to local authorities, universities, colleges, environmental organizations, voluntary bodies, employers' groups and trades' unions to be involved in decision-making (at the very least in a consultative capacity) on the design of programmes and delivery of interventions, and (sometimes) selection of projects.

Domestic policy initiatives over the past decade in England have lacked coherence and coordination, as the National Audit Office (2013) report on local economic growth in England concluded. The recent creation of a multi-departmental UK Cabinet committee to govern the approach to industrial strategy may be the start of a more strategic and coordinated approach to territorial development in England, but it begs the question of how other stakeholders will be involved. As O'Brien and Pike (2015) noted with respect to City Deals, they "provide a channel for centre-local communication and relations, potential empowerment of local actors, promotion of local innovation and tailored approaches, and mechanisms for governance reform. However, this approach has also reframed centre–local relations as transactional exchanges" between unequal partners in terms of information, resources and capacity.

A wider issue is the lack of an institutionalised framework for the UK as a whole. Scotland, Wales and Northern Ireland each have established government structures, but are dealing with difficult strategic questions regarding the relative emphasis given to promoting growth in the key urban centres versus balanced territorial development, as well as the appropriate institutional arrangements for sub-regional involvement in local and regional development. All three parts of the UK share some of the structural problems of northern English regions, and they have significant and (in some cases) widening sub-regional differences in GVA, productivity and employment performance. Structural Funds have been an important component in their regional and local development strategies over the long term, and they face important challenges in sustaining positive economic performance in regions such as West Wales or the Highlands & Islands. Further, as illustrated in Table 6 above, all three Devolved Administrations have been active participants in European Territorial Cooperation or other cross-border, inter-regional and transnational networks with EU partners. Although they and other UK authorities could continue to participate in Interreg programmes after Brexit, their involvement would need to be funded wholly from domestic resources, with difficult questions of affordability in continuing engagement as 'third-country' partners.

The asymmetric evolution of devolution arrangements has left the UK without well-developed mechanisms for coordinating policy objectives and instruments for territorial imbalance across the constituent parts of the UK or even platforms and networks for sharing information and policy experiences among government authorities beyond Structural Funds. Again, this contrasts with other European countries which generally have formal or informal coordination and cooperation systems across levels of government both under federal systems (e.g. Austria, Germany, Switzerland) or countries with devolved systems of government (e.g. Italy, Spain).

Lastly, the policymaking process for territorial development needs to be reconsidered. UK policy in this field has often been characterised by the sudden introduction or cessation of regional and local growth policy initiatives for no reason other than changes in political requirements on direction and timing. The consequences are evident in weaknesses in strategy development, objective-setting, implementation planning, performance measurement, evaluation, continuity of funding, transparency and democratic accountability (NAO, 2013). EU Structural Funds have been delivered through multi-annual programmes that provided a stable, predictable investment framework for regional and local organizations that transcended electoral cycles, ministerial changes and short-term domestic budget horizons. Programmes were also obliged to demonstrate a strategic approach to regional challenges, and had to be justified with reference to analysis of territorial strengths and weaknesses. Latterly, for the 2014-20 period, they also had to demonstrate that the pre-conditions for effective spending were in place (ex ante conditionalities), frame objectives with reference to planned outcomes and provide the intervention logic linking the two.

The UK approach also contrasts with the more considered and open policymaking process in the territorial development field of some other European countries. In Germany, regional policy reviews are based on extensive evidence gathering, consultation across government departments and levels of government, and parliamentary hearings before policy changes are introduced. In Norway, policy change is based on a four-year cycle of evaluation, analysis and open consultation leading up to a White Paper. Other countries have similar processes of policy development from which the UK could usefully learn.

Conclusions

In the wake of the EU referendum vote, the UK Government has the dual problem of managing the UK's exit from the EU – referred to by UK ministers as the 'most complex negotiation of all time' - while developing a domestic policy programme capable of responding to profound popular dissatisfaction with economic and social inequality across the UK. The loss of EU Structural Funds, which have been part of the UK policy landscape for over 40 years, is one consequence of Brexit and involves important questions as to whether and what kind of domestic regional development approach will take their place at different spatial scales and levels of government.

The disruptive nature of Brexit provides challenges, notably overcoming the loss of EU finance and the desirable parts of its administrative arrangements. This can also be viewed as an opportunity for a substantial transformation of policy and governance that begins to rebalance the most unequal developed country in Europe. Whether the UK Government, in particular, but also the Devolved Administrations have the commitment to addressing the fundamental causes of territorial inequality and to implement radical solutions, including the willingness to learn from other models of regional and local development, will be an important determinant of whether the UK really becomes 'a country that works for everyone'.

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