Growing regions, growing Europe: 
Fourth Report on Economic and Social Cohesion

Lancashire County Council Response

Introduction

Lancashire County Council welcomes the opportunity to respond to the consultation on the Fourth Report on Economic and Social Cohesion which will begin to define the future of Cohesion policy after 2013.

About Lancashire

Lancashire County Council has an administrative area which covers almost 1.2 million people and a further 8 million people live within 50km of the county in one of Europe's most densely populated areas. It is a large and in many respects a unique geographical area, retaining a strong economic base under-pinned by long urban and industrial traditions. Lancashire is also a multi-faceted region and is widely renowned for its environmental and quality of life attractions, notably its diverse and beautiful landscapes and countryside and its coastal fringes offering many opportunities for recreation and leisure.

With a £21bn per annum economy and as home to more than 41,000 businesses, Lancashire (including the two unitary authorities of Blackpool and Blackburn and Lancashire County Council) is one of the largest sub-regions in Britain in respect of its contribution to national output. Within the North West alone, Lancashire provides for about a fifth of the region's total economic production of goods and services, its contribution being second only to that of Greater Manchester.

The Lancashire region was at the forefront of the "Industrial Revolution" and its accompanying urbanisation and mass production. It is where many of Britain's traditional industries – most notably textiles but also engineering, vehicles and chemicals among them, as well as deep coal mining, had their earliest start. Cotton in particular became synonymous with the County and at its zenith dominated the local economy employing more than a quarter of a million people within present day boundaries alone. Many towns too still retain the physical stamp of this earlier manufacturing era.
Today Lancashire has a highly diverse economic base with a strong mix of both international and indigenous companies. Compared with the backdrop of very large vertically integrated companies, often employing thousands of workers, that characterised the area 25-30 years ago, today 90% of local businesses are small, employing fewer than ten people and 54% of these are less than ten years old. A high number of these companies operate successfully in niche and often global markets. Manufacturing in Lancashire remains a key and highly valued wealth creating sector. Directly it still accounts for nearly a fifth of the workforce and a quarter of local output; through increased outsourcing and purchases each production job probably carries at least another one on its back in one way or another. However, despite the continuing key role of production industry, including an active construction sector, as elsewhere in the UK it is services, particularly the commercial, business and technical services along with public-sector employment in areas like education, health and welfare that is today fuelling much of the new jobs growth. Across the sub-region more people are in work than ever before and conditions of virtually full employment are enjoyed in many areas.

The region, however, continues to face a challenging future. There remain numerous local issues relating to the economic welfare of many of its residents still to be fully addressed together with associated concerns relating to social, health and environmental well-being in some parts of the region, as well as with those arising from the rapid aging of the population and the quality of much of the infrastructure. There are, too, global challenges in which Lancashire will be required to play its part. These will include not only the competitiveness of the region’s industry and commerce but also the unprecedented movements of population and adapting to and managing the issue of climate change. The current mood, particularly in the business community, is one of optimism and there is a widespread assumption that Lancashire will indeed most likely continue to become ever more prosperous and better able to accommodate the myriad of changes it faces. But the area's economic difficulties have not yet been wholly resolved and its economy, while more diverse and robust, still has significant structural weaknesses. Huge changes will be necessary if Lancashire is to achieve a relative improvement in its long-term growth rate and enhance its position in the nation's and Europe’s economic ranking.

Consultation Questions

Q1 What lessons can be drawn from the experience of preparing the 2007–2013 programmes? In this context and in the light of the analysis provided by this report, how far is cohesion policy adapted to the new challenges European regions will face in the coming years?

Timing difficulties
As always with the drafting process for the next round of cohesion funding, the full outcomes from the previous round are not available. This is an inherent flaw which makes it impossible to base the next round on a full analysis of the effects of the previous one. The analysis attempts to overcome this difficulty by using a number of projections to assess the long-term impacts of cohesion policy but even the short term impacts of the last round are still relatively unclear. This is a somewhat unsatisfactory basis for policy and programme development.

European programmes for the 2007-2013 period have again been adopted late with the North West of England Operational Programme (which covers Lancashire) only scheduled to be launched in February 2008, more than a full year after the programme should have begun. This creates uncertainty and puts pressure on spending the funds, particularly in view of the ongoing application of the N+2 rule.

**Earmarking and Lisbon**

The process of earmarking has allowed the Commission to have a tighter rein on spending priorities but it is not always entirely welcomed, more particularly as the decision as to what is “Lisbon” is not entirely clear. The confusion over this led to some delay in the development of the North West Operational Programme and, presumably, others as well. Overall, there needs to be a much greater appreciation of what “Lisbon” means in a local context and what effects it is having on the ground.

The current round of cohesion has been heavily influenced by relaunched Lisbon agenda. The Lisbon agenda, however, runs to 2010 and the cohesion funds to 2013. Already, arguably, the Lisbon agenda is being overtaken by environmental issues. There is an argument that the Commission should give regions a freer hand to focus on their own regional specificities rather than trying to link regional policy too closely to one particular European process or policy or, at the very least, give them greater scope to influence the overarching policy decisions.

The emphasis in the cohesion report on greater integration with all EU policies should both increase the leverage of cohesion policy and give regions more of a say in where the funds should be spent. It also reflects a trend apparent at national and regional level in the UK. Increasingly, the emphasis is on “joined-up” up government. Policies are not confined to one particular heading but influence each other.

The “territorial dimension” needs to be a part of the development of any new EU policies. Policies which do not do so, run the risk of being too centralised and too inflexible. Policies which do not do so can have unintended consequences on regional development and can alienate the very citizens they are supposed to serve.
New Challenges

The report analysis shows that Europe is still very much a Europe of two halves but that many of the new Member States are changing quickly and it is likely that due, inter alia, to the benefits of cohesion policy, there will be a much less divided Europe post 2013. This should help to improve the economic position of the EU generally. The analysis points to globalisation, climate change and demographics as challenges for the future. We believe that the role of cohesion policy is to promote a Europe of balanced development which can support regions in providing comprehensive solutions to these challenges.

Q1.1 How can the regions react to restructuring pressures from dynamic competitors in low and medium tech sectors?

Globalisation presents opportunities and risks. Within Lancashire, manufacturing industry remains a significant force, notwithstanding the long-term contraction of employment in the sector across the UK. This is a matter of some concern for policy makers as, potentially, it exposes Lancisher to the full risks of operating in a globalised economy.

In Lancashire, the emphasis has been on re-invention with a higher value, flexible and dynamic sector, responding to global forces and learning how to build businesses that cannot easily be transplanted overseas. With annual turnover of nearly £16bn and still accounting for a quarter of local gross value added, manufacturing continues both directly and indirectly to dominate economic activity and wealth creation in the county.

Another key element for dealing with the risk of globalisation is a skilled and flexible workforce. Ideally, this workforce needs to be concentrated in knowledge intensive employment. There needs to be an alignment between economic imperatives and the investment plans of the education and skills agencies. EU funding needs to respond to local needs and specificities. A local or regional rather than a national ESF fund would help to achieve this. For example, ESF support in the UK is concentrated on lower skills but in Lancashire, we would like to focus our funding support on higher level skills which are needed to improve the economy and secure jobs for the future.

A good track record of innovation and trading performance which supports a core of innovative and growing industrial and commercial small and medium-sized enterprises can make a region an attractive place for investment. Some work has been done through the “Regions of Knowledge” programme in promoting links between Universities and local authorities but much more needs to be done to promote a culture of innovation not just within enterprise but within local authorities. This is an area where targeted support from the structural funds could make a real difference.
In the future, the most attractive regions will need to offer a range of opportunities to residents and businesses, not just infrastructure and a highly qualified work force, not just innovation and cutting edge technologies but an attractive physical and social environment as well. Regions themselves are in the best position to know where their strengths and weaknesses are. It is in designing solutions that the funds can make a positive contribution, through distilling best practice from elsewhere and making that available to regions and providing funds for regions to implement their own tailored regional solutions.

Q1.2 Given wide differences in birth rates, death rates and migratory flows at regional level, what is the role of cohesion policy in responding to demographic change?

Demographic change is becoming a barrier to growth for many EU regions. Population decline can be marked by net outward migration of younger and better-qualified age groups. To an extent this can be addressed by economic growth but there is also the question of environmental factors; cohesion policy can assist in putting in place the range of measures necessary to halt decline and increase attractiveness, encouraging the local population to stay and attracting others.

In the East Lancashire area in particular, there is a long history of experiencing negative migration flows amongst the younger and better qualified members of the community. A number of these authorities also suffer from the associated problems of employment job losses and severe pockets of deprivation.

Another consequence of demographic change is an expected significant increase in the number of single-person households. Life expectancy improvements and the pressures on the traditional family unit mean that a substantial proportion of these additional single-person households will be amongst the older age groups. In Lancashire, a large proportion of retired people have private pensions and other sources of funds that mean that they have comfortable lifestyles and spending patterns that help underpin the local economy. Parts of Lancashire, especially the coastal areas, are attractive residential areas

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for older people. A development of particular note is the **Middleton Towers retirement village** in Lancaster district. This 80-acre site is said to be the largest retirement village of its kind in the UK.

We believe that cohesion policy should also support regions in tapping into the “silver economy” and turning the presence of aging populations into a positive rather than a negative.

**Q1.3 To what extent is climate change a challenge for cohesion policy?**

In the UK, the Stern Review estimates that the overall risks and costs of climate change will be equivalent to losing at least 5% global GDP each year, now and forever. If a wider range of risks and impacts is taken into account, the estimates of damage could rise to 20% of GDP or more. In contrast the cost of action to reduce green house gas emissions to avoid the worst impacts of climate change can be limited to around 1% of global GDP each year. The Stern Review also recognises a £30 billion opportunity for British businesses to profit over the next 10 years as we adapt to threats of climate change. These opportunities exist primarily for businesses in the environmental technology sector, such as waste management, renewable energy, pollution control and energy efficiency.

We believe that a pro-active approach and a clear climate change strategy can help to address the challenges in the Stern report and take the opportunities. It will be impossible for one group to address all the issues arising from climate change. It is, therefore, essential that local organisations work in partnership with local, regional, national and international organisations to share information, ideas and best practice and to develop strategies and actions. Cohesion policy with its emphasis on good governance at local and regional level can champion a model which tackles climate change while working in partnership with all relevant organisations.

There needs to be a balance between economic growth and environmental concerns. Cohesion policy can support those regions which are already working on environmental issues through promoting such activities and through supporting businesses which take advantage of the need for new environmental technologies. People will need training to develop the new skills needed for climate change adaptation and, again, this is something which cohesion policy can actively support.

We are pleased that in Lancashire, the environmental technology sector has expanded in response to market demand. Business is aware of the opportunities of global climate change and is acting upon it. The increased use of low carbon technologies in buildings and processes has increased the market for these products and services. Lancashire has developed a strong low carbon energy generation and supply chain and R&D base. The
region has also developed a skilled workforce for installation and R&D in energy generation technologies. The potential for carbon capture technologies and off-setting of unavoidable emissions has been explored and implemented where feasible. This is clearly a good start as is the recent Lancashire Climate Change initiative but we are fully aware that more needs to be done. Targetted support from the cohesion fund for environmental initiatives such as these could be immensely beneficial in moving this work forward.

**Q 2** How can cohesion policy further develop an integrated and more flexible approach to development/growth and jobs in this new context?

Continued devolution to regional and local level is the key for greater flexibility and more targetted action to support growth and jobs. Greater devolution does not mean that the Commission cannot set overarching objectives and have a key role in promoting and disseminating best practice.

**Q2.1** How can cohesion policy better promote harmonious, balanced and sustainable development taking into account the diversity of EU territories, such as least favoured areas, islands, rural and coastal areas but also cities, declining industrial regions, other areas with particular geographic characteristics?

In this context, it is important to recall that there is a growing gap between many regions in Member States with the UK being a prime example of this. The Community has a role in ensuring that Member States themselves address this and in stepping in with extra support for those regions where there is a clear failing at Member State level. While it is clearly important to invest heavily in the poorest regions of the EU, large disparities within one country can also be damaging to cohesion.

The Lancashire experience is one of growing disparities between the growth rate in the county and the national average\(^4\). Lancashire's total Gross Value Added grew by about 1.9% per year between 1995 and 2005 – against 2.8% in the UK at large. The longer-term implication implied by this differential growth rate is quite substantial. The sluggish economic progress being experienced in parts of Lancashire (as highlighted in Q1.2) is the cause of much this growing differential, and it also leads to widening disparities between areas within the county.

If, in the future, GDP per capita is the only measure used in assigning Structural Funds this issue will be ignored. It is therefore important to look at a range of indicators when determining eligibility for funding.

Cohesion policy also needs to look at new and innovative ways to ensure that all the regions continue to play an active part in its development even as funding diminishes. It may be that after 2013 loans will be a more appropriate way than grants to get most benefit from the funds available. The success or failure of the JEREMIE and JESSICA initiatives will be of interest in determining whether this route has potential.

**Q2.2 What are the impacts of the challenges identified in the report for key elements of social cohesion such as inclusion, integration and opportunity for all? Are further efforts needed to anticipate and counteract these impacts?**

There are economic opportunities to be gained from inclusion and integration. Migrant workers bring a new dimension to regional economies. We have long experience of this within Lancashire. Nevertheless, there are also some difficulties. Within Lancashire, we have experienced a wave of immigration from the new Member States. There has been no formal acknowledgement at EU level that this may place a strain on regional capabilities and resources. For political reasons, no funding is available at school level, yet this is an area where the difficulties are acutely felt and which has been of considerable concern to residents, officials and local politicians.

Cohesion policy could support all aspects of social cohesion in a global way. It could support regions in putting in place packages of measures to assist migrants from both within and outside the EU. Arguably, earmarking has practically excluded the possibility of having any such measures within the current round of programming.

**Q2.3 What are the key future skills that are essential for our citizens in facing new challenges?**

Our citizens need to have the skills to deal with all the current challenges identified in the report and the adaptability to address new challenges. Freely available, targetted, appropriate training is essential for everyone at all stages of development. Lifelong learning is vital and we must give our citizens the skills and the motivation to take full responsibility for their own learning and development.

We don’t know what the key future skills are. We can sketch out a portfolio of skills which are necessary for the immediate future but we cannot predict what will be essential in even 10 years time. People need to be willing and anxious to learn and policy needs to put in place the opportunity for them to do so easily, quickly and cheaply.
Q2.4 What are the critical competencies that should be developed at the regional level to make regions globally competitive?

We need continued investment in the policy and administrative capacity of the regions to ensure that they can fully play their part in developing future competitiveness. The regions need to be attractive places not just to work but also to live. Local authorities, as “place-shapers” are best placed to address all these issues.

Q.3 Following the appraisal of the previous questions, what is the assessment of the policy management system for the period 2007–2013?

Some comment has been given earlier on the effects of earmarking. Aside from this, it is really too early to assess the effectiveness of the policy management system. The added value of the rather cumbersome NSRF procedure is not yet entirely apparent although some use has been made of this by the Commission in initial assessment of programme priorities for the period 2007-2013. Arguably, the regulations and, perhaps the Community Strategic Guidelines and the operational programmes themselves would have been sufficient.

Q3.1 Given the need for efficient management of cohesion policy programmes, what is the optimum allocation of responsibility between the Community, national and regional levels within a multi-level governance system?

The EU cohesion policy programmes put regions at the heart of Europe and are one of the key visible elements of the EU for citizens. For their success, they rely on active engagement at regional and local level. Nevertheless, in part because of their inclusiveness, it is true that the management of Community programmes can be complex. Those seeking funding can be put off by the requirements of European funding and look elsewhere for support, particularly in richer Member States like the UK. However, despite the complexity, a successful cohesion policy must actively involve players at local and regional level buying into the process. The European Community must have overarching responsibility for steering cohesion policy, arguably, it could draw back somewhat from the day to day management and give more freedom to regions to determine spending priorities and report on progress. Without the European Commission pushing actively for a role for the regions and municipalities and emphasising partnership and good governance, it is likely that these funds would be far more centralised and administered in a less transparent way. Multiple layers of governance make for a complex system and this seems to be an inevitable negative spin-off of a largely positive process. Some tinkering can bring about limited improvements but overwhelmingly, the system does not favour this.
The seven year span of guaranteed funding and the planning at regional and local level to support this is, we believe, very positive. It adds a welcome element of stability to regional and local financial planning as well as a reinforcement and support to the development of a strategic vision at local level.

Q3.2 How can cohesion policy become more effective in supporting public policies in Member States and regions? What mechanisms of delivery could make the policy more performance-based and more user-friendly?

There is a difficulty inherent in this question. The Commission pushes for the concept of additionality (i.e. that the funds should be used to do something extra and not something that would have been done in any event with national funds) but additionality is not achieved by putting funds towards existing initiatives or schemes. In negotiations on its operational programme, the North West was criticised by the Commission for referring too much to the Regional Economic Strategy and not enough to the Commission priorities.

Authorities, therefore, have to seek to strike a balance between European, national, regional and local priorities, clearly identifying each and stating how funding contributes to their achievement. In practice, these priorities are often similar though there are, clearly, regional and local particularities. As a significant funding instrument to achieve its aims and as a way of raising visibility of the EU among citizens, cohesion policy is a key tool in the EU’s armoury. Nevertheless, the EU must acknowledge that the more the funds support Member State and regional public policies, the more difficult it is to highlight their additionality.

On the question of delivery, it is clear that the closer delivery is to the citizen, the more likely it is to be user-friendly. Local delivery models involve using authorities who know their audience, what its needs are and how to communicate with it.

A performance reserve at regional level could encourage the best projects and motivate others to investigate best practice.

Q3.3 How can we further strengthen the relationship between cohesion policy and other national and Community policies to achieve more and better synergies and complementarities?

The trend in both national and EU administration is for more “joined-up government” and this is of huge assistance in identifying such synergies and complementarities. It is also an opportunity to stress the importance of cohesion policy in other policy areas. It is not just a funding policy but a unique way of promoting regional development and growth. Its messages could usefully be taken up by other policy areas across the board. In the current climate, this is surely an argument that will be accepted by Member States
and other services within the Commission. The reform of the EU Budget is an opportunity to press this view. The reform is to be policy driven. It aims to establish where the EU can add value. The approach and lessons of cohesion policy and its implications for other policy areas should be highlighted.

Q3.4 What are the new opportunities for co-operation between regions, both within and outside the EU?

Many regions have historic links with others both within and outside the EU and while there is a long tradition within the Community of promoting intra-Community links, the EU could pay more attention to promoting links with regions outside the EU.

The cross-border programmes provide opportunities to bring together neighbouring EU countries around issues of common concern. The 150km rule which applies under the current programme is entirely arbitrary, discriminates against islands and works against neighbouring regions seeking to address joint problems. The North West of England argued for inclusion of a cross border programme in the Irish Sea, but due to 20km extra distance was unable to be included in a programme which involves all its neighbours (Wales, Scotland, Ireland and Northern Ireland).