North West Regional European Partnership response to European Commission consultation on:

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

Summary

1. Cohesion policy is a means to achieve the Lisbon objectives at a regional level.

2. For the future of Cohesion policy there are three broad areas where economic growth programmes can demonstrably add value by addressing issues which are, by their nature, EU-wide in their scope. These issues are:

   • *Changes in markets and economic activity*; the challenges presented to Small and Medium-sized Enterprises (SMEs) by globalisation and the demands of overseas competitors, the need for re-skilling of workers to adapt to new markets and sectors, the need to develop further the knowledge-based economy.

   • *Environmental change*; not just the rise in Carbon emissions, but a wider range of environmental challenges such as the spread of pollution, the deterioration in water quality and air quality, the rise in environmental risks and hazards.

   • *Population change*; the challenges presented by falling birth rates, the increasing age of the population, the effects of out-migration or in-migration.

3. In the future, the Structural Funds should develop a suite of programmes which can, on one hand, address the structural needs of lagging regions, and on the other hand can become more specifically tailored to the needs of regions, and more closely linked with other EU instruments.

4. We believe that tailoring programmes to the needs of regions will be both in terms of reflecting the objectives in the region’s economic strategy, and also taking into account the territorial specificities of the region. Funds must be available to meet the needs of specific places be they cites, peripheral areas or deprived rural communities.

5. Territorial Cooperation must be a fundamental part of the strategies for each region and not seen as an optional extra. The aim should be to share internationally what we are doing in the region and therefore strong cooperation networks, with any regions working towards common objectives, are essential.
Introduction

1.1 The North West Regional European Partnership (NWREP) brings together representatives from across the region to act in a regional capacity to give strategic coordination and direction to the delivery of the North West European Framework, ensuring that the North West Regional Assembly (NWRA), Northwest Development Agency (NWDA) and their partners collectively and individually gain maximum benefit from European policy and programmes.

1.2 NWREP welcomes the opportunity to respond to the consultation from the European Commission on the Fourth Report on Economic and Social Cohesion which will begin to define the future of Cohesion policy post 2013. We recognise this as a first step in the process and commit to contributing to the future European-level discussions.

1.3 England's Northwest is a fast growing, vibrant region, combining a dynamic business base, cosmopolitan urban centres, breathtaking landscapes and an internationally recognised creative and cultural scene. With almost seven million inhabitants and 247,000 companies, the Northwest is a thriving economy. It is worth a remarkable £111 billion - a tenth of the overall UK GVA. It is the UK’s 3rd largest regional economy and one of only three regions to contribute positively to the UK’s balance of trade. In European terms, the North West, with almost 7 million citizens is larger than 11 out of the 27 EU Member States and has the 12th largest economy in the EU. A huge 25% of the region is designated as National Park or area of outstanding beauty. The Northwest boasts the largest lakes and mountains in England, not to mention the longest stretch of undeveloped coastline.

1.4 However despite the major assets of the region, there are also considerable challenges. Several decades of underperformance has led to a Gross Value Added (GVA or output) per head which is 13% lower than the UK or 15% lower than the England average, resulting in an output gap of £19.5 billion with England or £16.5bn with the UK.

1.5 England's Northwest has a long history of engagement in European Union policies and programmes. We have actively contributed to events such as the Open Days and Cohesion Forum, as well as being recipients of Structural Funds and successful in bids for the Framework Programmes and other thematic programmes. We understand the significant added value of European programmes in developing our region; not only do EU programmes provide a stability to programme delivery through the commitment of funding over a five to seven year period, but also they allow partnerships to work towards common goals within an EU context. We believe it is important for regions to play their vital role in the European project.

1.6 The European Union has been a significant and valued partner in the regeneration and development of the North West of England. The added value of EU funds has helped to turn the region around. To cite some figures, in the period 2000-2006 the Objective One area of Merseyside received €1,390 million, Objective Two
programme in the region € 840 million and the Objective Three programme approximately € 500 million. However this is not all, participation the URBAN programme came to € 11.4 million and an estimated €120 million through the Sixth Framework Programme. INTERREG involvement for the North West was in projects with a total value of some €60 million, bringing €11 million directly into the region. As highlighted above however we see the added value of European engagement going beyond these figures.

1.7 For 2007-2013 the North West ERDF programme consists of €308 million for the ‘phasing-in’ area of Merseyside and €447 million for the rest of the region. The Operational Programme was finalised in December 2007, it is therefore still too early to draw conclusions from the implementation of this programme for the future of Cohesion Policy. These lessons will be better shared during the fifth Cohesion Report in 2010.

Response to the Consultation Questions

2. 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?

The Fourth Cohesion Report is a good first step in the analysis of future challenges. The challenges mentioned, however, are for the whole of the EU, across all policy areas. They must be integrated into Cohesion Policy in the same way as they must be integrated into research and development, agriculture, the internal market and other fundamental areas of EU competence. Regions are key actors in delivering a wide spectrum of European programmes, not just Cohesion Policy. Therefore it is also essential that this role is taken into consideration in the developments of all future EU programmes, in order to enable the EU to meet its objectives of social, economic and territorial cohesion.

For regions to be able to respond to their specific challenges there needs to be enough flexibility for them to do so, and we believe that the 2007-13 Regional Competitiveness programmes are a bold attempt to make the Structural Fund programmes more appropriate to the demands of the Lisbon agenda. This means giving regions EU wide funds to do this for the good of the region as a whole and in harmony with its strategies e.g. economic, housing and sustainable development.

However, the experience of the preparation of the 2007-13 programmes is that the Structural Funds are in need of radical reform if they are to fit the needs of Europe in the 21st century, and in particular if they are to address the challenges presented by the

1 Depending on the ratification of the Lisbon Treaty.
Lisbon strategy, including the lack of research and development capacity, imbalances in skills, lack of innovation and leadership capabilities and low levels of entrepreneurship.

There is still a need for structural programmes; that is, programmes which exist to address structural challenges. Although the majority of need, in terms of a market failure justification for public funding, is in the new Member States, there are still regions in Western Europe which exhibit severe structural problems, and where targeted funding can assist in the re-conversion of that region. However, in many cases this need can be better addressed by thematic programmes directed at for example, transport or ICT infrastructure.

For the economic growth and competitiveness of regions, however, there needs to be a suite of different instruments; ones which address the key economic challenges facing EU Member States, and which demonstrate the added value of such funds; that is, they preserve something of their EU origin and philosophy in their approach to economic competitiveness.

In that respect, we identify three broad areas where economic growth programmes can demonstrably add value by addressing issues which are, by their nature, EU-wide in their scope. These issues are:

- **Changes in markets and economic activity**: the challenges presented to Small and Medium-sized Enterprises (SMEs) by globalisation and the demands of overseas competitors, the need for re-skilling of workers to adapt to new markets and sectors, the need to develop further the knowledge-based economy.

- **Environmental change**: not just the rise in Carbon emissions, but a wider range of environmental challenges such as the spread of pollution, the deterioration in water quality and air quality, the rise in environmental risks and hazards.

- **Population change**: the challenges presented by falling birth rates, the increasing age of the population, the effects of out-migration or in-migration

Therefore, we would advocate that, in the future, the Structural Funds programmes are reformed to develop a suite of programmes which can, on one hand, address the structural needs of lagging regions, and on the other hand can become more specifically tailored to the needs of regions, and more closely linked with other EU instruments, such as the Framework R&D programmes, territorial co-operation programmes, human resource (ESF) programmes and others. We envisage a set of objectives in a region’s economic strategy, which can be matched to a set of EU policy instruments to address these objectives.

We believe that tailoring programmes to the needs of regions will also take into account the territorial specificities of the region, making funds available to the needs of specific places be they cites, peripheral areas or deprived rural communities.
Over the coming years the European Commission needs to build a dialogue with each individual region to better understand the structure of support to deliver the outcomes vital for the sustainable economic development and cohesion of that region. This would enable development of regional capacities and capabilities so that EU Structural Funds can add value to development deficits.

Cohesion is about achieving Lisbon at a regional level, Cohesion Policy must therefore look at what support each region needs to enable this to happen. This means that EU-wide guidelines and national priorities need to be suitably flexible to allow regions to respond to their specific needs and give EU added value to the priorities set out in their regional strategies.

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

The Northwest of England is well aware of the opportunities and risks from globalisation. Building Foreign Direct Investment, internationalising our SMEs and using new technologies to stay competitive, are just a few of the challenges we face.

On a European level, attracting investment from other EU countries is a zero-sum game; we need to be looking at where Europe as a whole is competitive in the global economy. In this respect, EU concerns are the regions’ concerns and we are the delivery vehicles for making our regions more attractive to business, for developing the skills of our citizens to be able to compete and to improve the environment where people live and work.

In that respect, the approach outlined in (2) above takes into account the demands of restructuring, as it is one of the EU-wide issues that affects many, if not all, regions of Europe.

Skills are an important element of this restructuring process. We recognise the need for technological development and training to innovate and take advantage of opportunities from globalisation as well to mitigate potential negative effects for important economic sectors.

The use of Cohesion Policy in general, and Structural Funds in particular, as a flexible instrument to tackle the capacity and capability gaps of a region to engage in achieving these targets, we believe is the best way the EU can assist in dealing with these challenges.

2.2 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 either through declining or growing populations. For people to stay or move to a region there needs to be opportunities for decent employment and a high quality of life. Increasing levels of education and skills will be essential.

For regions, demographic change takes many forms; it may encompass falling birth rates, out-migration of young people, the challenges of an aging population, and the need to address the potential and issues presented by migration. Each region will experience a difference balance of these factors. Therefore, for each region, there will be different policy responses, which will be set out in that region’s strategy.

The role of cohesion policy should be to allow regions to address the aspects of demographic change which are applicable to them rather than a ‘one-size-fits-all’ approach. There should be an emphasis on learning from other regions sharing similar concerns, be it re-skilling or the flexibility of older workers.

As set out in (2) above, a flexible cohesion policy will create the scope to address these challenges in each region.

The North West has joined with a group of regions facing similar challenges as the Demographic Change Regions Network and has submitted a separate response to this consultation which goes into the issues in more detail.

2.3 To what extent is climate change a challenge for cohesion policy?

Climate Change is a considerable challenge for Cohesion Policy and needs to be taken into account when we address the future cohesion of regions. Climate Change will affect regions in different ways – this could be due to flooding, drought, fires or even migration. It will increase the economic pressure on some regions (particularly those still reliant on high-emission heavy industries) whilst creating economic opportunities for others.

The current definition of cohesion currently includes “social, economic and territorial” however we can no longer make decisions without looking at the consequences of our actions on the environment. It is important, therefore, that environmental considerations are brought into the definition of cohesion.

The Stern report, published by the UK Government in November 2006, also talks of opportunities from Climate Change and regions must lead in encouraging the development of new technologies and solutions to innovate in the low carbon economy.

There is a clear need to ensure that Cohesion programmes in the future contribute to the reduction of greenhouse gases in the atmosphere and not add to the overall burden. Infrastructure in place needs to be climate-proofed and people will need the skills and training to implement new technologies or to take action in adaptation to climate change.
In the North West of England Operational Programme (NWOP) we have the horizontal theme of environmental sustainability as well as a number of vertical actions including the support for low carbon buildings and support for SMEs in becoming more environmentally sustainable. We have set clear targets on Carbon Dioxide emission reduction which should be a standard across all programmes, especially those dealing with large infrastructure projects and SME support.

However, there is also a role for cohesion policy to identify and exploit the economic opportunities which arise from climate change. The NWOP will seek to encourage the emerging environmental technologies sector as a generator of solutions, GVA and jobs.

A flexible cohesion policy could enable solutions to be rapidly disseminated across the EU, encouraging regions, SMEs and organisations, to learn from each other. This can be facilitated by use of the Framework R&D programmes, through the Interreg programme which can allow some forms of experimentation with new approaches and policy instruments, and finally by using the Structural Funds to put in place those structural changes which may be necessary for regions to take best advantage of the economic opportunities presented by environmental change.

On a wider level, we maintain that EU Cohesion Policy must be aligned with wider EU targets. The Lisbon Treaty, if ratified by 27 Member States, has the fight against Climate Change as an overarching policy of the EU. How Cohesion policy delivers this will then be a central question.

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

Cohesion policy needs the twin track approach of improving competitiveness and improving cohesion. This approach is embedded in our strategies at regional level. We maintain that we need to grow the economy across the region and ensure that the benefits are felt across the society. In England's Northwest, a conscious decision has been taken to ensure that we do not have economic growth at the cost of the poorest in society.

Flexibility, then comes from two approaches: firstly, by developing a range of policy instruments (and funding programmes) which can be used where appropriate to address the needs of any particular region, rather than relying on the blunt instrument of Structural Funds programmes, which are often less flexible. Secondly, flexibility is achieved by undertaking individual negotiations with regions throughout the programme planning phase, to define the set of tools and instruments which will be of greatest use to that region to assist its process of restructuring.

This is about addressing gaps, building capacity and exploiting opportunities. It is not the case that cohesion policy should be entirely cohesion-oriented, i.e. funds to the poorest regions of the EU only, or entirely competitiveness-oriented, i.e. investing in those
regions which can bring strong economic growth and emergence of new technologies. The balance that each region needs in order to deliver sustainable and inclusive economic growth has to be decided as a result of ongoing dialogue and building understanding between regions and the European Commission. The North West is already advanced in this process and has ensured that the development of all its strategies focuses on sustainable and inclusive economic growth in a balanced way. We see the EU as a valued partner, bringing a valuable EU perspective to the table.

As the 4th Cohesion Report reminds us, economic disparities exist not only between regions in different countries but also between regions within one country. The UK has the most severe economic disparities of all 27 EU countries. Inner London tops the EU wide table at three times the EU average whilst West Wales and the Valleys is almost four times poorer in terms of economic output. This is another element that will be important to take into consideration and involvement of national level in the dialogue will help to address this.

3.1 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?

Territorial Cohesion is the spatial expression of sustainable development. By using the approach described in section 2 above, regions and partners will be able to establish their priorities for interventions, tailored to the specific geographic, economic and historic factors of that particular region, within a coherent EU wide regional policy.

Whilst regions experience broadly similar challenges (in terms of environmental, demographic and economic change, as described above), the specificities of that in each region will vary. It is important that cohesion policy can present a range of instruments which can address the needs of dispersed or peripheral regions as effectively as the needs of urban regions.

3.2 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?

As indicated above, there are issues around inclusion which have an EU-wide dimension, and which can be addressed by EU-wide policies. These are particularly obvious in relation to migration, the changing demands of the workforce in a globalised economy, and the need for people-centred labour market policies.

There is no doubt that EU policies, such as the European Employment Strategy, have a key role to play in assisting Member States to respond to the challenges of labour market change.
There are, of course, economic opportunities to be gained from inclusion and integration. Migrant workers, for example, have added a new dimension into regional economies with their influx of new skills and dynamism into areas with labour shortages. The split between ERDF and ESF programming makes it harder to align investments and therefore benefits.

3.3 What are the key future skills that are essential for our citizens in facing new challenges?

In a global economy, there are increasing demands on workers to be flexible and adaptable. National programmes of training may contribute to this, but they will also continue to focus on technical skills and know-how for the current demands of the labour market.

There is a role here for EU skills and training policies to be more future-focussed; to help to increase the flexibility and adaptability of workers, not least in a context where migration within the EU is increasing, with resultant economic opportunities for individuals.

The focus in future skills development, therefore, will need to be on transferable skills to be able to move between jobs. This will demand a focus on ‘soft’ skills, such as communication, interpersonal skills, self-reliance and technological skills. It will also mean focusing on ‘bite-sized’ personalised training which may not be qualification based but more aligned to individual needs.

3.4 What are the critical competencies that should be developed at the regional level to make regions globally competitive?

There is, to some extent, a gap in Cohesion policy in that it concentrates on the structural changes necessary in a region’s economy, and on the personal skills of workers and enterprises, but does not address the wider regional skills set, which to some extent determines the capacity of regions to cope with change.

Regions will therefore need the skills and capacity to set up business-entrepreneurship connectivity and networks. In order to avoid over specialisation or, equally, over diversification, regions must develop a creative, flexible, adaptable, SME base. This will require processes of networks inside and beyond the region, skills in cluster building and business-university relationships, stronger knowledge transfer networks and stronger regional partnerships. Skills in governance and leadership are also important to manage the process of economic transition and sustainable economic growth.
4. Following the appraisal of the previous questions, what is the assessment of the policy management system for the period 2007–2013?

As explained above we believe that the purpose of Structural Funds is to build the capacity of regions to be able to engage in the European project. In order to be able to do this there needs to be an ongoing dialogue between each region and the European Commission. This will help to build understanding of policies at regional and national level and where the synergies exist with Europe.

We believe that there are many lessons to be learnt from the process for the 2007-13 programmes. However at the base of it we believe that between now and the next programme the level of dialogue and cooperation between the region and the European Commission needs to move up a gear. There needs to be an increased understanding of both the regional and the European agendas and a strong two-way dialogue.

The Community Strategic Guidelines (CSGs) provided the necessary base for the development of the National Strategic Reference Frameworks and subsequently the Operational Programmes. For a future programming period (2014-2020) the CSGs need to be available much earlier (in 2011) to give time for the regions to look in depth at direction and capacity needs. In addition we believe there should be an emphasis on regional partnerships.

There will need to be externally verifiable data to decide on levels of funding for each European region. If programmes are looking at capacity issues, then a basket of indicators should be used which can take into account these issues, e.g. including:

- Population (European Council’s criteria)
- Lack of prosperity measured by GDP per employee at regional level
- Low Employment levels (European Council’s criteria)
- % of workforce with low educational skills (European Council’s criteria)
- Proportion of employees working in manufacturing
- Business density (business per head of 1,000 population)
- Lack of Innovation (using a basket of recognised measures of the knowledge economy and not relying solely on Research and Development)

Cohesion is economic, social and environmental – therefore indicators must reflect this and not be purely economic. The ‘Lisbon indicators’ developed at an EU level, and detailed in a recent ESPON report are a good example of how more refined indicators can lead to a sharper focussing of policies and instruments.

However a blunt instrument purely based on indicators will not serve the needs of the regions to reach Lisbon targets. We emphasise again that all EU policy must be a result of ongoing dialogue looking at building the capacity of all regions.

2 ESPON project 3.3 Territorial dimension of the Lisbon-Gothenburg strategy, May 2006
4.1 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?

Effective delivery of EU policies and programmes is a shared responsibility between the EU institutions, national governments, and regional and local authorities and their socio-economic partners. At the programming phase, all levels will be involved in the process of negotiation to define a set of interventions which can address the key challenges in any given region.

However, at programme delivery stage, there is still a perception of duplication of effort and responsibility between these four levels. For example, there are strong arguments for the Commission to recognise and accept the use of National Standards in terms of audit processes rather than having external controls imposed. It is argued that once the Member State has sufficiently rigorous systems and structures in place to ensure that money is spent in a fair and transparent way, the Commission should accept and support these systems.

Clear agreements, possibly the tripartite agreements referred to in the 3rd Cohesion Report, can set out clearly the balance of responsibilities, although partners in the region recognise the need for ‘quadripartite agreements’; that is, there must be local as well as regional authorities engaged in the process.

4.2 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?

Cohesion Policy is a strong element of the EU, however it needs to take the existing national and regional strategies and policies of the European regions better into account.

Structural Funds are the EU programme which touches directly many citizens of the EU and has a fundamental role in communicating the values of solidarity and social and economic justice into the regions and localities of the Union. If the Structural Funds are to become more effective in supporting Member State and regional polices, the Structural Funds must be delivered as a partnership between EU and national and regional policies. Regions will require flexibility to develop their own response to the policy challenges set at EU and national level. The positive benefit of this is that innovative approaches and new ways of working can be tested and transferred across the EU as appropriate.

Citizens can see the positive benefits of the EU through Structural Funds which is increasingly important in the enlarged EU. It helps also to highlight the role of regions in bringing benefits to people, directly influencing their communities, jobs and lives. Structural Funds are a way of showing the clear and tangible benefit of EU membership for regions, SMEs and citizens. In the North West there are many projects which have improved the lives of people that would not have happened without EU backing. This message needs to be made clearly across the EU.
4.3  **How can we further strengthen the relationship between cohesion policy and other national and Community policies to achieve more and better synergies and complementarities?**

As explained above we believe that that the purpose of future generations of competitiveness funds will be to build the capacity of regions to be able to engage in EU-wide growth and cohesion. In order to be able to do this there needs to be an ongoing dialogue between each region and the European Commission. This will help to build understanding of policies at regional and national level and where the synergies exist with Europe.

Some may argue that the added intervention of the European Union is only needed in the case of the poorest member states, the rest can be handled through national level. Indeed we agree that there is the greatest need in the poorest member states, however every region has capacity difficulties to a greater or lesser extent, and we believe the best way to address this is through the security and reliability of Structural Funds programmes which enable real changes to be made. This includes the territorial dimension as a way of learning and disseminating best/new practice across the regions as well projects between regions/partners.

4.4  **What are the new opportunities for co-operation between regions, both within and outside the EU?**

Cooperation must be a fundamental part of the strategies for each region and not seen as an optional extra. The aim should be to share internationally what we are doing in the region and therefore strong cooperation networks, with any regions working towards common objectives, are essential.

We understand the importance of cross-border programmes and also the role of regions in the European Neighbourhood Policy, looking beyond our EU borders. We believe however that as the internal market becomes stronger and there are fewer differences between cross-border zones, this will no longer need to demand such a large proportion of the territorial cooperation budget; networking between regions becomes a more diverse and –‘virtual’ part of a region’s development.

Opportunities for collaboration across regional boundaries, whether an adjoining region or one on the other side of the EU or beyond, should be part of a region’s growth strategy. Therefore, a flexible cohesion policy should allow regions to finance the necessary co-operation as an important complement to the interventions which take place within the region. This should not be curtailed by artificial transnational constructs, as is currently the case with Interreg IVB. Instead we need a more flexible instrument to allow regions to build the necessary links to be able to respond to the fundamental challenges which arise through climate change, demographic change and economic change.
Experiences within the North West of England are that it is not always easy for regions to support the inter-regional relationship which are most important to them; for example, the North West made a strong case for a programme in the cross-border strand of the Territorial Cooperation programme (2007-13) to develop links across the Irish Sea; an historic relationship based on long-standing trade and cultural links. Due to an extra 20km above the 150km cut-off distance, the North West was unable to be included in a programme which involves all its neighbours (Wales, Scotland, Ireland and Northern Ireland), and which would have provided an additional dimension to our regional growth strategy.

Despite this we are working to develop a strong Irish Sea programme under Interreg IVB. However in the future we would argue that programmes across all strands of Territorial Cooperation are judged on their merit and not on arbitrary distances that penalise island regions and do not take account of economic and social realities.

NWREP
January 2008