The West Midlands’ response to the Fourth Cohesion Report on Economic and Social Cohesion

Introduction

The West Midlands region, with its population of 5.4 million, lies at the heart of the UK. This vibrant region comprises the counties of Shropshire, Staffordshire, Warwickshire and Worcestershire, the unitary authorities of Herefordshire, Stoke-on-Trent and Telford and Wrekin and the seven metropolitan districts of Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton.

The West Midlands was the birthplace of the industrial revolution and half a century ago was one of the most prosperous in the UK. Today, the West Midlands underperforms relative to UK and international competitors. In 2005 output per head was 89% of the UK average which represented a €13.5 million output gap with the rest of the UK.

The West Midlands is an industrial region converting to a knowledge-based economy and has many challenges to face. Three areas stand out:

- **Knowledge economy and innovation** – research statistics from FP6 indicate that the West Midlands has a low uptake of research funding. This figure is a sign that the West Midlands is lagging in the use of R&D to help shift the region to a more innovative, knowledge-based economy;
- **Skills** – the West Midlands has the unenviable record of being in the UK relegation zone for skills. This low skilled workforce creates problems of social exclusion and also hinders the development of an innovative knowledge-based economy;
- **Regeneration/quality of life** – negative perceptions of parts of the region can affect inward investment and encourage outward migration of skilled workers.

Structural Funds can, and have, helped the region in all of the above three areas. Any future diminution would compromise the speed of the West Midlands conversion to a knowledge-based economy.

Our experience of using Structural Funds in the region is mirrored by our engagement in Brussels. West Midlands was the founder member of the European Regions Research and Innovation Network (ERRIN) and continues to play a key role in the development of this network which now numbers nearly 60 regions.

West Midlands was a founder member of the Lisbon Regions Network which brings together key regions in the EU to develop and enhance the regional dimension of the Lisbon Strategy for Jobs and Growth.
West Midlands has also actively contributed to the Committee of the Regions and DG Regio’s Open Days and has participated and led several consortia – in 2007 on behalf of the ERRIN network. We expect to lead a consortium in 2008 based around regional perspectives of health care and medical technologies.

Our active involvement in the above networks and events indicates our interest in linking future cohesion policy to the future development and objectives of the Lisbon Strategy and also the need for closer linkages to be made between cohesion policy on one hand and Community research policies and programmes such as FP7, Competitiveness and Innovation Programme and the Lifelong Learning Programme so that regions can strengthen and coordinate policies involving cohesion, entrepreneurship, innovation and skills.

**Key points from the West Midlands**

**Future cohesion policy should:**

- encourage regions to develop integrated strategies that identify their core competences and learn to develop ‘triple helix’ networks of expertise, linking research to business and the public sector, which can help develop innovative products and services (Question 1.1);

- help regions address the issues surrounding migration by aiding the exchange of best practice and increased funding to help regions exposed to high inward migration to deal with the challenges linked to skills, housing and integration (Question 1.2);

- reward regions that take into account European recommendations to reduce emissions, embark on low-carbon strategies, and encourage the use of renewable energy, eco-innovation and sustainable construction (Question 1.3);

- target competitiveness and cohesion across all regions in the EU (Question 2);

- place more attention on lifelong learning, education and skills (Question 2.3);

- devolve ESF funding to the regional level so that regions can help develop demand-led skills that reflect regional realities and strategies (Question 2.3);

- involve all regions and local authorities in discussions of future cohesion policy (Question 3);

- strengthen regional partnerships between business, higher education and research institutes and regional and local governance (triple helix) in order to strengthen and develop R&D capacity (Question 3.3).
1. 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?

It is clear that the 2007-2013 programmes have benefited from a more strategic approach and clearer links with the Lisbon Strategy for Jobs and Growth via the Community Strategic Guidelines. However, there is still a need for more reform. One of the key dimensions of a shift to a knowledge economy is the exploitation of R&D in the regions by linking it to entrepreneurial and innovative firms. These firms require an increasingly skilled workforce (especially in e-skills).

While innovation and skills should remain a key issue for the Structural Funds, there is now an increasing need to take into account the effects of climate change and the need for secure and efficient energy supplies to regions.

This changing economic and environmental context requires changing indicators for regions that can measure their capacity to adjust to the knowledge economy. Performance indicators should reflect less on GDP but examine underlying regional factors for growth e.g. skills, innovation measures, R&D spend, entrepreneurship and start ups.

Performance indicators also need to take into account sub-regional variations within regions.

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

The Fourth Report on Economic and Social Cohesion notes that ‘Virtually all regions are confronted with the need to restructure, modernise and facilitate continuous knowledge-based innovation...to face the challenges of globalisation.” As the Report points out competition on cost alone is not a viable option and regions need to move towards high-value added goods and create conditions for businesses to adopt innovative products and processes.

**Regions therefore need clear integrated strategies that identify their core competences and learn to develop ‘triple helix’ networks of expertise which can help develop innovative products and services.**

It is important for regions to develop an R&D base and make sure that this base is linked to the regional economy, especially SMEs, and create an educated and skilled workforce at all levels to develop key production and service sectors.

The Fourth Cohesion Report points out that although the ‘Pentagon’ has loosened its grip on the EU economy, it is still the case that economic activity has become more concentrated in capital city regions throughout the EU with
the exception of Berlin. In France and the UK, Paris and London account for around 30% of national GDP while other cities account for no more that 3-4%. In the UK GDP per head in Birmingham, Manchester and Glasgow is no higher than the national average and growth has been slower than in London.

This lack of counterbalancing growth poles has negative effects for the UK in as much as it contributes to overheating in London and the South East with consequent negative externalities and also weakens the ability of the regions outside the east and southeast UK to retain graduates and knowledge workers.

Therefore regions need to:

- create integrated strategies for the creation of an R&D capacity linking universities and business clusters and regional policy;
- develop a skills strategy encompassing low, medium and graduate skills to encourage both employers and employees to invest in education and training;
- develop ‘quality of life’ strategies that encourage knowledge workers to locate or remain in the region;
- develop accessibility strategies that can attract Foreign Direct Investment, skilled migrant workers and tourists;
- lobby Member States for a more balanced approach to growth and public investment.

1.2 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?

Cohesion policy has two key roles – one is to reduce regional inequality and reduce the ‘push factor’ of migration. The second role is to help regions receiving migration, due to economic or political reasons, to integrate these migrants into the regional economy and community as quickly and as effectively as possible.

Regions facing outward migration flows need to:

- create attractive cities and regions to reduce outward migration;
- where outward migration occurs to increase and extend the activity rate of the working population to counter the loss of population;
- develop strategies to support population-loss in the worst-affected areas – developing population and service hubs, using e-technologies to deliver some services by ICT.

Regions encountering inward migration require help to:

- address the issues surrounding migration by aiding the exchange of best practice and increased funding to help regions exposed to high inward migration to deal with the challenges linked to skills, housing and integration such as establishing new infrastructures to welcome and
support migrants and their children that involve schools, housing and community support e.g. language and cultural classes;
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\item make sure that migrants do not create ‘ghettos’ that can reduce opportunities for integration, that migrants are not exploited and receive equal opportunities to integrate and progress within the host society;
\item make better use of skills of ‘aspiring’ migrant workers which involve better recognition of skills, qualifications (this should be helped by the European Qualifications Framework and the European Credit System for Vocational Education and Training) and the development of language skills (see the recent study of migration in the West Midlands “The economic impact of migrant workers in the West Midlands”\cite{1}).
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One of the greatest problems influencing the productivity of the West Midlands economy is the poor skills profile. 12,000 vacancies remain unfilled. However, the region has a marked problem in retaining its better-qualified population as people with degree level qualifications are attracted to London and the South East.

The Black Country, an industrial sub-region west of Birmingham, is no longer suffering a net loss of population through out-migration due to recent significant inward migration from Eastern Europe. However, skilled people continue to leave the urban areas resulting in a population imbalance and polarisation which may lead to economic and social cohesion issues for the future.

The sub-regional response is a strategy designed to achieve four key objectives: population growth; raising incomes to the national average; achieving a better balance of resident households; and transforming the environment. These objectives will be achieved through growth programmes which include regeneration, skills development, building a knowledge economy and better accessibility.

\textbf{1.3 To what extent is climate change a challenge for cohesion policy?}

Within Europe most regions are now confronted with altering weather patterns that give rise to floods, drought, heat waves and forest fires. It is quite clear that coastal regions are most at risk from rising sea levels but also unusually high and intense levels of rainfall can cause inland flooding in river basins as occurred in parts of England in 2007 – most notably in the West Midlands, South Yorkshire and Humberside.

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\item \url{http://www.wmro.org/standardTemplate.aspx/Home/GeneralResearch/EconomicMigrants/Results}
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Individual regions are not to blame for global increases in greenhouse gases and therefore it is incumbent on the EU to work with other global regions to reduce greenhouse emissions.

However, some regions are likely to be more affected by changing weather conditions and here the notion of global solidarity at the EU level should be enhanced with an EU reserve fund, based on the European Union Solidarity Fund, for flood and fire damage which goes beyond what can be normally predicted. Regions which introduce strategic climate change risk analyses and protection plans which are acknowledged, at both the national and EU-level, to be adequately funded and correctly implemented should then be eligible for EU assistance when faced with problems brought on by unpredictable weather conditions.

**Cohesion policy should therefore reward regions that take into account European recommendations to reduce emissions, embark on low-carbon strategies, and encourage the use of renewable energy, eco-innovation and sustainable construction.**

Climate change is also likely to encourage ‘climatic migration’ and changes in economic activity, as flooding and/or high temperatures and summer droughts may mean that some regions face economic challenges in key sectors such as agriculture or tourism.

There may also be shifts in land use and land use planning. Some areas that are attracting migrants may be faced with additional development pressures as more land is seen as ‘at risk’. Many existing properties may be faced with higher insurance bills to cover higher perceived risk which may lead to the collapse of some housing markets in flood-risk areas or the forcing of some SMEs to close or relocate.

The recently launched West Midlands Economic Strategy supports this aim and argues that the region “...needs to be at the forefront of this sustainable growth path, reducing carbon emissions while at the same time increasing economic output and realising associated growth opportunities.”

Future cohesion programmes might include a cross-cutting theme that will encourage all regional programmes to contribute to the reduction of carbon emissions and encourage renewable energy, eco-innovation and support relevant skills to exploit these new technologies. More focus is also required on supporting sustainable construction and energy-reduction strategies which relate to the EU’s Energy Packages published in January 2008.

2. **How can cohesion policy further develop an integrated and more flexible approach to development/growth and jobs in this new context?**
Cohesion policy concerns all regions in the EU as it needs to both target competitiveness and cohesion. The focus on competitiveness through linking it to the Lisbon Strategy should be furthered but not at the expense of ignoring the cohesion role where the policy can help lagging regions and sub-regions develop their capacities for engagement in the knowledge economy.

Cohesion policy can also provide a stable medium-to-long-term framework for regions to formulate and implement strategies but these strategies should fully reflect the principle of subsidiarity as all regions need to take into account different economic and social contexts and have realistic ambitions regarding potential growth rates.

2.1 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?

The Territorial Agenda of the EU outlines the benefits of pursuing an integrated territorial development policy. It calls for more cooperation and networking on territorial aspects in the future including on issues such as sustained economic growth and labour market policies, networking among urban regions and a modern understanding of urban and spatial development involving a broad range of regional and local players.

The Leipzig Charter on Sustainable European Cities argues that an integrated urban planning approach is a prerequisite for the sustainable development of European cities. Its key themes concern strategies for upgrading the urban fabric and for enhancing local economies and labour markets, clean urban transport and the integration of migrants.

Cohesion policy should also focus more strongly on aspects of the territorial coherence and integrated development of rural areas but also peri-urban areas. The transfer from agricultural policy to regional and cohesion policy of the funding allocated to rural development would reflect better economic reality and enable a more integrated approach to urban, peri-urban and rural development.

Regions and local authorities are best placed to make decisions regarding housing quality, quality of the built environment, and accessibility - especially by public transport.

Cohesion policy should retain the balance between cohesion and competitiveness. Cohesion policy should not be seen as a simple safety net but a bridge leading to coherent change strategies that face up to changing economic geographies and wider European strategies e.g. shifts to a knowledge economy.
2.2 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?

The Social Reality Report (2007) points out that dramatic changes are underway in European societies: in the nature of work; modern family life; demographic trends; the position of women in society; social mobility and the incidence of poverty and inequality. Values are changing and societies are becoming increasingly multicultural. This social dynamic presents new challenges which Cohesion policy must address particularly the growing tendency for society in the EU to fragment between highly skilled workers exploiting the benefits of a globalised knowledge society and those with few skills whose social and geographical mobility is constrained by economic and social factors.

More attention needs to be placed on lifelong learning, education and skills, better support for single parents and health and well-being programmes. Future cohesion policy should place more emphasis on developing holistic and more flexible regeneration schemes that develop sustainable ecosystems integrating physical, social, economic and environmental factors to reduce social exclusion.

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

Future challenges are not easy to predict but there is a great deal of evidence that is helping crystallise policy. It is clear that if business is to become more competitive then citizens will have to be better educated and obtain relevant demand-led skills and key competences which are described in the European Framework of Key Competences.

It will also be necessary to give citizens the skills and the aspirations to become active citizens and be able to participate actively in political, community and social networks that affect their lives, increase their human capital and that provide a platform for demand-led skills based around flexicurity. This will involve more attention being paid to e-skills that can help improve productivity and reduce exclusion and the accreditation of learning that has taken place in both formal and non-formal learning contacts.

It is important that ESF funding should be devolved to the regional level so that regions can help develop demand-led skills that reflect regional realities and strategies. This means that skills policies need to widen the skill set in their region including higher level skills. More attention must be paid to how future policy can encourage employers to identify gaps and invest more in training as public funding alone is unable to meet this key challenge. This increased role for the private sector must be driven by leadership and
improved management skills that can drive change and stimulate better productivity.

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

Regions need governance systems that monitor and analyse the global economy in order to develop regional strategies that exploit opportunities and reduce weaknesses. Information systems such as ESPON will be invaluable in helping regions benchmark their performance against other regions in the EU.

Regional observatories which collect and analyse information should be supported. This data and information can then be the basis of identifying regional competences. Increasingly these competences will be developed by ‘triple helix’ networks with increased participation by Higher Education and business in developing regional strategies and identifying key regional growth sectors. Regional governments must be more involved in the governance and objectives of European Technology Platforms, Joint Technology Initiatives and the recent EU ‘lead markets’ initiative in order to benefit more fully from these EU opportunities.

It is clear that all regions must develop innovation systems and cultures that will enable businesses and organisations not only to adapt to change but lead change and set new standards.

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

3.1 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 development of the 2007-2013 cohesion policy gave regions the opportunity to interact with the European Commission and opened up a useful dialogue for regions to communicate their ideas and interests. The Commission outlined and discussed its ideas of a more strategic approach to regional policy through the Community Strategic Guidelines which in turn informed the National Strategic Reference Frameworks.

However, in some Member States, including the UK, there were fewer opportunities for regions and local authorities to enter into a wider debate and much of the cohesion policy seemed resolutely top-down.
It is therefore important that as cohesion policy has a more strategic focus that regions and local authorities have opportunities to influence as far upstream as possible as it is regions and local authorities that most often implement and deliver the strategy on the ground.

Regions also have good practical knowledge of the resources required and the partnerships needed to deliver the policy and this knowledge should be recognised and drawn upon at the national and European level.

Regions should also be encouraged and aided to use interregional partnerships not only to acquire best practice and to benchmark their activities but also to add fresh thinking and innovative approaches to territorial and economic development.

3.2 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?

The West Midlands region welcomes the shift of emphasis of cohesion policy to supporting Member States’ public policies but this shift also needs to take into account regional policies that will be delivered through Integrated Regional Strategies in the UK. Aligning Regional Development Agencies in the UK as ERDF managers means that application procedures can be lightened, but attention should be paid to any simplification in order that cohesion policy remains visible as a programme which can add value to national and regional development policies.

Cohesion policy can become more effective in supporting public bodies in Member States by:

- an increased acknowledgement of Member State and regional policy
- an even greater reliance placed upon national and regional controls to deliver the policy.

Such an approach will permit a greater focus on delivery and results, putting the various funds to best effect as opposed to the current focus on the often resource intensive tasks of additional (and often duplicated) justification of eligibility and subsequent inspections. This emphasis on national and regional control should be reflected in the Commission’s regulations and associated management and control requirements.

An added area of difficulty is the growing administrative and financial management burdens being passed to project sponsors. These burdens are earning a bad reputation for the policy, even among direct beneficiaries, and are fuelling calls for the renationalisation of cohesion policy.
3.3 How can we further strengthen the relationship between cohesion policy and other national and Community policies to achieve more and better synergies and complementarities?

Research and innovation are crucial to addressing some of the major issues facing the European Union and upholding an EU model based on economic growth, social responsibility and sustainable development. Innovation plays a key role both in dealing with challenges facing the EU such as climate change and in improving the competitiveness of the EU economy in an open global economy.

Innovation is most effectively addressed at regional level (e.g. in the case of the West Midlands through technology corridors and ten regional clusters) as physical proximity fosters the partnerships between actors in both public and private sectors. The formation of regional clusters is often the key to the successful promotion of research, technological development and innovation.

The capacity of regional decision makers and entrepreneurs to turn knowledge, skills and competencies into sustainable competitive advantage is crucial to regions’ economic performance. However, European regions vary considerably in their capacity to absorb and develop knowledge and technology. It is vital that future EU policies and funding help strengthen regional partnerships between business, higher education and research institutes and regional and local governance in order to strengthen and develop R&D capacity, whilst paying due attention to the SME dimension, building cooperation at the EU and international level and strengthening the exploitation of R&D results.

The European Investment Bank is already part of the cohesion landscape via its involvement in instruments such as JASPERS (project development), JEREMIE (capital investment for SMEs), JESSICA (sustainable, urban development) and ‘JASMINE’ (micro-credit facility).

The success of these instruments (public/private initiatives) will be judged over the 2007-2013 period and if successful these instruments should be rolled out with more backing from the Commission and Member States as they will provide rolling loan-based funding schemes for projects that will induce more financial rigour from regions and Member States.

Loan-based instruments should not replace the current matched-funding and grant approach but they can help top up other spending streams, both national and European, and add a certain flexibility and speed into investments, for example, in helping develop research capacity. These funds could develop infrastructures, both hard and soft, contribute to demonstrator projects and link to other funding schemes and policies (e.g. Birmingham Science City) to provide easily accessible small-scale seedbed finance. This financing instrument could be aimed at regions and sub-regional areas that were clearly underperforming in R&D (possibly measured by participation in and funding obtained from FP7 projects).
These funds should not be targeted at the top-performing R&D regions but at the medium-level research institutions that want to increase their economic potential via research and innovation activities with local SMEs. This will help develop a critical mass of research and innovation activities that at a certain point in time (e.g. over the period of the Structural Funds) would be increasingly financially independent – a benefit to the region, the Member State and to Europe.

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

Cross-border, transnational, and interregional cooperation is important as it encourages regions to benchmark, exchange best practice and develop partnerships for mutual benefit. However, developing cooperation projects under the interregional programme requires upfront resources and future cooperation programmes should consider some degree of funding for project development within regions before proposals are submitted to the Commission. Future cooperation projects would therefore be more effective because regions would be working with the right partners with ambitious yet realistic work programmes.

The West Midlands is concerned that the transnational and interregional cooperation themes should not be seen as the ‘poor-relation’ of the Territorial Cooperation Objective.

The West Midlands supports the development of the Regions for Economic Change fast-track initiatives which bring together relevant EU and regional experts, but consider that more transparency and openness is needed in how networks are designated and participating regions chosen.

Finally, there should be more opportunities for EU countries to use funds to improve their links with regions outside the EU e.g. as in the SICA Specific International Cooperation Actions under FP7.

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