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RESPONSE FROM THE SCOTTISH EUROPEAN STRUCTURAL FUNDS FORUM TO THE UK GOVERNMENT CONSULTATION ON ‘A MODERN REGIONAL POLICY FOR THE UNITED KINGDOM’

Summary

1. The enlargement of the European Union in 2004 to include ten new Member States, mainly in Central and Eastern Europe, necessitates a reappraisal of EU regional policy. Due to the challenges which most new Member States face in ensuring cohesion and sustainable economic growth, and achieving convergence with the rest of the EU, it is vital that a significant share of future Structural and Cohesion Funds goes to the poorest regions in these new Member States.

2. The Scottish European Structural Funds Forum (“the Forum”) welcomes the UK Government consultation paper and its strong commitment both to regional policy and to a continuing important role for the EU in regional policy. The Forum also expresses its support for the UK Government’s commitment to engaging with the Commission on the potential for reform of the State Aid regime. The consultation is timely in the context of the debate about the future of EU regional policy and presents a focus for Scottish partners to consider how future regional policy should best serve not only the interests of Scotland but also the overarching social and economic cohesion objectives of the EU. Scotland has consistently and enthusiastically supported the European ideals of open markets, cohesion and solidarity. The discussion stimulated by the consultation paper has allowed the Forum to identify key principles for future regional policy in Scotland. These are listed at the end of this paper. While all Forum members support these principles, there are differing strengths of opinion on the specific proposals within the consultation paper and these will be reflected in members’ individual responses.

Introduction

3. The focus of the UK consultation paper is on a proposed funding model that would devolve responsibility for regional policy to Scotland. In considering the document, the Forum has built on the UK proposal of an EU Framework. The Forum strongly recommends that the UK Government continues, not only to reaffirm its commitment to regional policy, both at the EU and national level, but also takes tangible steps to demonstrate this commitment in order to influence future EU regional policy.

4. We think this can best be achieved by:

- at the EU level, developing the principles of regional policy;
- at national level, by firming up the commitment to future national regional policy and ensuring sufficient funding is made available;
- working closely with Commission officials on state aid reform.

5. The Forum would welcome the opportunity to work with UK Government officials to develop these issues.

The rationale for regional policy

6. The reduction of regional disparities through long-term application of economic development measures has been an important feature of public policy in Scotland since the establishment of the former Highlands & Islands Development Board (HIDB) in 1965 and the then Scottish Development Agency (SDA) ten years later. The success in turning round the economic and demographic decline of the Highlands and Islands since that time has, for example, stemmed from the consistent pursuit of regional policy objectives. Equally, the more urban parts of the country have benefited steadily from successful stimulation of economic development on both a geographical and sectoral basis.

7. For more than 25 years, Scotland has benefited significantly from Structural Funds, which have contributed to economic development and job creation in many areas acknowledged as lagging behind or suffering from structural decline. The Structural Funds, together with Regional Selective Assistance, have ensured a strong focus on the role of regional policy in Scotland and its impact on improving competitiveness. The Forum is clear that regional disparities within Scotland remain and require continuing intervention to tackle variations in level of prosperity, economic strength, unemployment and out-migration.

8. It is important to emphasise the need for regional development policies at three levels: EU, UK and Scotland.

9. At the *EU level*, there are three key objectives.

- To support the Lisbon Agenda of global competitiveness and economic growth, as well as the Gothenburg Council commitments to sustainable development. European Commission figures show that much of EU GDP growth is generated by a small number of regions in the core of the EU. There are significant variations in GDP per hour worked (i.e. productivity) across Member States, and even more significant differences between the EU15 and accession countries. The evidence suggests that there has been only modest convergence in the productivity rates of EU countries in the last 10 years. Achieving the goals of the Lisbon Agenda will require not only an acceleration of structural reforms but also improvements in the competitiveness and growth performance of regions outside the core (e.g. with respect to regional labour markets, innovation systems, etc.).
- To promote the economic and social cohesion of the EU. The Structural and Cohesion Funds have made a significant contribution both to convergence between Member States and to reducing the gap between the richest and poorest regions of the EU15. As a result of enlargement, economic and social disparities will increase considerably requiring sustained, large-scale support focused on the poorer Member States to achieve convergence.
- To demonstrate solidarity between richer and poorer parts of the EU, to make the EU visible to the citizen.

10. At the *UK level*, an active and long-term regional policy is needed to address regional imbalances across the country. As in the EU, improving the UK's rate of economic growth depends on narrowing the gaps in competitiveness between the territories and regions of the UK. Overall Scotland's average productivity is similar to that of the UK as a whole, but the picture is much less reassuring when productivity is compared for smaller areas (NUTS III). There is a huge range of productivity between NUTS III areas within Scotland, which includes the area with the lowest

productivity in the UK. However, sub-national strategies need to operate within a UK ‘spatial framework’, which can bring coherence from a regional policy perspective to the many UK Government policies that impact upon economic development in Scotland.

11. At *Scotland level*, regional policy is needed to address problems of structural change and development which constrain competitiveness and productivity. Significant disparities exist between regions within Scotland, associated with severe physical and geographical handicaps and urban deprivation. For example:

- While Scotland's employment rate is 73%, there are wide differences at local authority level, of plus/minus 14 percentage points from the all Scotland rate;
- In 2001, the rate of unemployment (residence based, claimant count rate) varied from 6.8% in North Ayrshire to 1.6% in the Shetland Islands;
- Parts of Scotland have experienced significant reductions in their working age populations: over 1991 - 2001, the working age population fell by 0.4% in Scotland, but by 8.8% in Eilean Siar (Western Isles), 7.2% in Inverclyde and 6.3% in Dundee City;
- Severe physical handicaps affect large parts of rural Scotland and are most acute in the case of the 90 inhabited islands, where economic activity is heavily constrained by transport and other charges;
- At the local level, there are pockets of acute deprivation, as outlined in the Index of Multiple Deprivation.

12. As elsewhere in Europe, the average GDP in Scotland masks huge disparities at a local level. The *Index of Multiple Deprivation*¹ shows that many of the most deprived wards in Scotland in terms of average income are also deprived on the basis of employment, health and education indicators demonstrating that there are still pockets of severe deprivation which need to be addressed.

13. There are problems associated with peripherality, depopulation and remoteness from markets and access to services, which differentiate Scotland's position from much of the rest of the UK. These are an even more serious obstacle to competitiveness for the Highlands and Islands and remote areas of southern Scotland.

14. The Forum therefore believes that there is strong continuing justification for a regional policy in Scotland to support and complement Scottish sectoral policies in promoting growth, facilitating structural change and reducing disparities in income, productivity and prospects. Regional policy should build on the benefits derived from current and previous Structural Funds Programmes.

Building on the Scottish experience of regional policy as a model in the enlarged EU

15. The implementation of the Structural Funds in Scotland has produced added value in several important respects. Programming has encouraged a more strategic approach to economic development. Structural Funds have promoted innovation and encouraged networking, both of which have contributed to finding new approaches to economic and social challenges. The role of

¹ Scottish Indicators of Need – carried out for the Scottish Executive by the University of Oxford, 2003

the EU in promoting the mainstreaming of the horizontal themes of sustainable development and equal opportunities within the Structural Funds has produced substantial gains in Scotland.

16. Partnership has been a key theme of Structural Funds implementation in Scotland and a key factor in generating added value. Partners are drawn from a range of bodies, including local government, the enterprise network, environment agencies, further and higher education and the voluntary sector. Side by side sits the Community Planning framework. Each local authority area has a Community Planning Partnership which brings together a wide range of local partners from the Council, the health boards, the police, enterprise, etc. to provide overarching, long-term planning for the area. This framework, along with Local Economic Fora and the Social Inclusion Partnerships (which will be integrated into the Community Planning framework), can be expected to contribute to ensuring the coherence of regional policy with other local policy developments.

17. It is important to emphasise that, under the principle of subsidiarity, there should be a decentralised approach within the EU to decisions on resource allocation for regional policy, which should be delivered at the local level through a partnership model. The Forum agrees that Scotland should build on the partnership approach in future regional policy, however funded.

18. Through sharing of good practice and increased inter-regional co-operation, Scottish experience of managing Structural Funds can be passed on to others who are developing their regional policies in future.

Key principles for a future regional policy in Scotland

19. The Forum supports a central role for the EU in regional policy although would not be able to support the UK's proposed EU Framework without further detailed discussion with UK Government officials on the precise implications of it. We endorse the recognition of the importance of subsidiarity in setting priority objectives for regional policy. Sufficient funding would need to be allocated to regional policy through appropriate financial instruments over the long term to ensure that the Framework objectives could be successfully implemented.

20. The Forum expects that the Framework objectives should be based around key EU goals, as set out in the Lisbon and Gothenburg Agendas. Therefore, in line with the Lisbon Agenda and the *Framework for Economic Development in Scotland*², regional policy should have a strategic focus on employment as a means of preventing social exclusion through promoting workforce development and tackling economic inactivity and incapacity through skills training. In line with the Gothenburg Agenda, it is vital to ensure that economic development is promoted in ways which include environmental and social considerations and that all three are sustainable over the long term. The Framework should also aim to promote inter-regional co-operation across Europe and sharing of good practice from regional policy.

21. Broadly speaking, future regional policy should address the following key principles:

- recognise and address regional disparities;
- maximise economic opportunities and dynamism in a sustainable manner;
- complement Scottish Executive policy priorities and the overarching economic strategy '*Smart, Successful Scotland*'³;
- promote sustainable development as an overarching goal of regional policy;
- promote diversity, social inclusion and environmental justice;

² Framework for Economic Development in Scotland – Scottish Executive, 2000

³ Smart, Successful Scotland – Scottish Executive, 2001

- be flexible enough to tackle different challenges in different regions, resulting in measurable improvements against a range of regional development indicators across Scotland;
- a long-term strategic vision;
- resources should be focused on tackling remaining, severe, regional and intra-regional disparities and should build on opportunities to promote competitiveness;
- inter-regional, cross-border and trans-national co-operation should be encouraged and supported further;
- promotion of innovation and sharing of good practice;
- encompassing the full range of factors in regional development and involving the full range of partners.

22. In conclusion, our success in Scotland in developing and implementing regional policy has been acknowledged. This paper identifies the key principles of future regional policy. We look forward to further discussions with the UK Government as the details of their proposals for an EU Framework are developed in light of this and other responses to their consultation.