

## Brexit, EU Cohesion Policy and Regional Development in the UK

In the heated debate on the economic impact of a possible UK withdrawal from the EU, relatively little attention has been given to the implications for the individual nations and regions of the UK. Yet, as a new paper by John Bachtler and Iain Begg reports,<sup>1</sup> the impact of a Brexit is likely to be spatially unbalanced and have important policy implications from the loss of EU Cohesion Policy funding.

Different parts of the UK will be affected very differently from a Brexit vote. Some areas will be more exposed than others depending on their reliance on foreign investment, trade with the EU, or dependency on EU migrants to fill low-paid, unsociable or seasonal jobs. For example:

- The Centre for Economic Performance estimates that foreign direct investment could fall by 22% over the next decade.<sup>2</sup> Outside the South-East, it is Scotland, North West England, West Midlands, Wales and Northern Ireland - which have gained most FDI over the past decade - that would be most affected by a slowdown in foreign investment.
- Research by the University of Groningen shows that rural counties such as North Yorkshire and Dorset, and more urban ones, like West Yorkshire and Lancashire, are more integrated with the EU.<sup>3</sup> These are regions with a greater dependence on manufacturing, agriculture, mining and extraction, and utilities sectors, which are more skewed towards EU markets, and more vulnerable to disruption of trade if the UK is no longer part of the single market.

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<sup>1</sup> *Cohesion and Cohesion Policy in the UK: what might Brexit entail?* UK in a Changing Europe Policy Brief by John Bachtler and Iain Begg <http://ukandeu.ac.uk/research-papers/cohesion-and-cohesion-policies-in-the-uk-what-might-brexit-entail/>

<sup>2</sup> *The impact of Brexit on foreign investment in the UK*, by Swati Dhingra, Gianmarco Ottaviano, Thomas Sampson and John Van Reenen, Centre for Economic Performance, <http://cep.lse.ac.uk/pubs/download/brexit03.pdf>

<sup>3</sup> *Brexiting yourself in the foot: why Britain's Eurosceptic regions have most to lose from EU withdrawal*, Centre for European Reform Insight by John Springford, Philip McCann, Bart Los and Mark Thissen, <http://www.cer.org.uk/insights/brexiting-yourself-foot-why-britains-eurosceptic-regions-have-most-lose-eu-withdrawal>

A further factor would be the loss of £10 billion of EU Cohesion Policy funding, currently allocated to the UK for regional and local development in the period 2014-20 under European Structural and Investment Funds. In 2013 negotiations on the EU's 'multiannual financial framework' (MFF) for 2014-20, the UK did exceptionally well out of the negotiations; while the overall EU budget fell, and most EU countries lost cohesion funding, the UK retained and even slightly increased its allocation. In all probability, the UK would get a further allocation as part of the European Commission's mid-term review due before the end of 2017, given the relatively weak economic performance of some UK regions in recent years.

The Leave campaign has insisted that regional development grants would be secure until 2020. Yet, they are also arguing that they could stop paying into the EU budget and reallocate the savings to other priorities almost immediately. However, the EU funding currently due to the UK is based on the 2014-20 MFF that requires the UK pay into the EU budget at least until 2020 and possibly until 2023 as the bills for EU-funded projects in the UK become due for payment. The EU would not agree to the UK stopping payments into the EU budget and still getting funding for EU-financed projects. With the cessation of the UK's EU budget contributions, any UK projects awarded EU funding would either have to stop or be funded wholly by the UK Government.

Beyond the immediate issue of current projects, there is the question of what might replace EU Cohesion Policy in the UK, described by Jayne Woolford as a 'policy vacuum' given the lack of thinking that has been done.<sup>4</sup> Of course, as Leave campaigners might argue, the UK would be free to implement its own regional policy. It is, though, ill-equipped to do so. Lacking the kind of constitutional commitment to regional equity of countries like Germany, Italy and Spain, the UK has allowed its domestic regional policy to wither away. Regional government offices and regional development agencies have been abolished, and the UK spends less on regional aid (as a proportion of GDP) than most other EU countries and a fraction of spending in France and Germany. Brexit could well provide the opportunity (or necessity) to develop a new strategic approach to regional development, but certainly in the short term the policy levers to respond to regional economic shocks no longer exist. Further, economic forecasts suggesting that a Brexit would lead to lower public spending would constrain the UK's ability to finance any future regional development policy.<sup>5</sup>

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<sup>4</sup> *What a difference a decade can make: Cohesion Policy and Brexit*, UK in a Changing Europe Policy Brief by Jayne Woolford <http://ukandeu.ac.uk/what-a-difference-a-decade-can-make-cohesion-policy-and-brexite/>

<sup>5</sup> See for example: *Brexit and the UK's Public Finances*, by Carl Emmerson Paul Johnson Ian Mitchell David Phillips, IFS Report 116, Institute for Fiscal Studies <http://www.ifs.org.uk/uploads/publications/comms/r116.pdf>

As the Bachtler/Begg paper notes, one particular local effect – most important for peripheral regions – could be taking the UK out of the INTERREG programmes for cross-border and transnational cooperation regions, quite apart from prospective changes in the direct support through mainstream programmes. Like Norway and Switzerland, the UK could participate as a non-EU partner in territorial cooperation programmes, but this engagement would need to be funded wholly by the UK. Less tangible losses of the cessation of EU Cohesion Policy could be principles such as strategic planning, multiannual programming and multi-level governance (partnership), in favour of the unstable, top-down and short-term approach that has often characterised the UK domestic approach to regional policy over the past 30 years.

That the threats to EU funding through Cohesion Policy are not playing a larger part in the debate is perhaps not surprising given that the UK's receipts have been falling over time, and much of the EU spending is now on 'less visible' priorities such as business support and innovation – as opposed to physical infrastructure. However, it also reflects an extraordinary lack of awareness of EU funding among people in the UK. A 2015 Eurobarometer survey found that fewer than 10% of UK respondents were aware of EU co-financed projects in areas where they lived – the lowest by far of any EU country.<sup>6</sup> Such lack of knowledge suggests that the impact of Brexit on EU funding in the UK's regions would be yet another area with a surprise in store.

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<sup>6</sup> Citizens, awareness and perceptions of EU regional policy, Flash Eurobarometer 423, [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/reports/eurobarometer/423/citizen\\_awareness\\_summary\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/eurobarometer/423/citizen_awareness_summary_en.pdf)