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Cohesion policy after Brexit: the economic, social and institutional challenges

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Abstract

Since 1988, when the current EU Cohesion Policy was introduced, it has played an influential role in setting priorities for policies aimed at dealing with the effects of European economic integration on regional and social disparities. Although, latterly, the amount of money spent in the UK through the European Structural and Investment Funds (ESIF) has declined, EU programmes have had a disproportionate effect on the design and implementation of UK policies shaping regional and local economic and social development. This paper starts by recalling how EU Cohesion Policy has functioned in the UK, then considers how Brexit may affect regional and social development and the need for a corresponding policy response, focusing on the sorts of policies currently supported by the European Regional Development Fund (ERDF) and the European Social Fund (ESF). The paper shows that filling the policy vacuum will be far from straightforward because complementary national policies and institutional frameworks have lacked consistency or coherence. It concludes by examining the wider policy issues arising from rethinking domestic policy outside the ESIF framework. The sub-national level, in particular, will need a fresh approach following Brexit.

Introduction

Leaving the European Union (EU) will involve the most extensive upheaval for decades in British economic and social policy. Whether the outcome is liberating or damaging depends at least partly on the societal and territorial distribution of costs and benefits and on the design and implementation of any alternative policy framework. There will be winners and losers, but who will fall into the two groups depends on policy choices.

Rooted in the 'European Social Model', the EU concept of cohesion combines economic development and social justice, delivered through programmes tailored to the specific development needs and challenges of different areas. Since the late 1980s, Cohesion Policy has been a principal means of countering economic, social and territorial disparities across the EU. Although now concentrated on

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the poorer countries and regions of central, eastern and southern Europe, EU policy has been influential in shaping the approach taken in the UK to economic and social policy interventions. It has affected governance by providing stability through multi-annual programmes, and promoted a strategic and integrated approach to development through a partnership approach bringing together central and subnational levels of government and representatives of civil society.

In the UK government's 2014 review of EU competences, the report on social policies (HMG, 2014a) emphasised the connections between the single market and the limited array of policies in which there is EU-level intervention. However, the review drew attention to the EU's evolution in successive reforms towards more explicit social aims, all of which were endorsed by the UK. Specifically, Article 3 of the Treaty on European Union, in setting out the fundamental aims of the Union, refers to 'social progress', combating 'social exclusion and discrimination' and improving 'living and working conditions'. The same Article refers to the promotion of 'economic, social and territorial cohesion, and solidarity among EU countries', providing a justification for the ESF.

In short, the UK has acquired a broad social legacy from its EU membership. This legacy arguably accords with UK political preferences for a social model shared with much of the rest of the EU. As such, it belies the threats to introduce a radically different socio-economic model (for which the UK government evidently has no obvious mandate) if Brexit negotiations go badly.

Under EU Cohesion Policy, the UK has an allocation of over £10 billion for the 2014–20 period, implemented through six ERDF programmes and six ESF programmes, managed separately in England, Northern Ireland, Scotland, Wales and Gibraltar. Their objectives are governed by a 'Partnership Agreement' negotiated between the UK Government and the European Commission, and their management is subject to a complex EU regulatory framework that prescribes almost every aspect of the administration of the Funds. These programmes co-finance UK policies for innovation, SME competitiveness, low carbon, broadband, urban development, social inclusion, skills and employment (HMG, 2014b). Many local authorities, development/enterprise bodies, and the voluntary sector rely on EU funding for investment projects and services (Miller, 2016).

A central question for the UK Government and the Devolved Administrations (DAs) is whether the conjunction of an integrated, place-based policy approach and the specific social targets of ESF funding should continue after Brexit. The UK competence review on Cohesion Policy cites (HMG, 2014c, paragraph 3.69) the Welsh Government view that certain socially-orientated EU initiatives 'were ill-conceived as EU interventions and better suited to regional development, control and deployment'. However, UK domestic regional and local development interventions have focused mainly on economic objectives – productivity, innovation and entrepreneurship. Only in Scotland is social inclusion recognised explicitly as a driver of improved economic performance and integrated within development strategies (Scottish Government, 2016).

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These are important issues for post-Brexit policy, given the perceived importance of inequality in – at least partly – explaining the voting patterns of Leave and Remain. It has been argued that parts of the country with lower levels of wages, skills, employment opportunities and wealth were more likely to vote to leave the EU (Bell and Machin, 2016; Darvas, 2016; Clarke *et al.*, 2017), but the Leave vote was also related to perceptions and experiences of the economic opportunity or threats of EU membership (Dorling *et al.*, 2016). This has been recognised politically in post-referendum debates and in the identification of those 'just about managing (JAMs)' as the segment of society requiring increased attention from social policy. One of the proclaimed goals of the UK Prime Minister Theresa May is 'a country that works for everyone . . . . [and] . . . . the need to rebalance the economy across sectors and areas in order to spread wealth and prosperity around the country' (CCHQ, 2016).

Reverting to full national control of regional development policies will entail choices about much more than future funding models (Bachtler and Begg, 2016). Administratively, the procedures for managing Structural Funds have become ingrained in the domestic policy thinking and practice of the UK government and the DAs (Gore, 2008: Bachtler *et al.*, 2016). UK regional and local development has also been influenced by wider EU policy frameworks, often applied through the ESIF, notably the Europe 2020 strategy, successive social inclusion initiatives, EU competition policy (state aid controls) and EU environmental policy. Freed from EU regulatory obligations, and with the scope to reallocate EU budgetary contributions for domestic purposes, the UK Government, DAs and other stakeholders will also have to rethink post-Brexit objectives and how they dovetail with social policy priorities, the new UK industrial strategy, and the instruments and governance of economic and social development. Using regional policies to address both economic and social cohesion goals is not a given, and it is unclear whether and how the UK government authorities at different levels will continue to apply an integrated and place-based policy approach.

This paper examines the validity of retaining the EU model of regional economic and social development following Brexit. It begins with the conceptual underpinnings, then reviews the policy objectives, resources and effectiveness of interventions funded under the ERDF and ESF. It concludes by discussing the policy options for the retention, replacement or termination of the ESIF in the UK.

Economic and social cohesion: EU rationales for policy intervention

Cohesion Policy in the EU has been shaped by various conceptual models and by the experience of policy development over decades, especially since the late 1980s when major reforms were enacted. In considering what happens next, it is worth recalling how the policy has developed before assessing its relevance to a post-Brexit UK. Relevant insights can be gained from place-based regional policy

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(Barca, 2009), fiscal federalism, innovation-based growth and, latterly, the social investment paradigm (Hemerijck, 2017).

The case for a spatial approach is that territorial inequality matters, government has a responsibility to intervene, and intervention can be effective (Bachtler, 2001), both economically and socially. These assumptions have guided EU policies since the 1950s, though with significant differences over time and space. Until the 1980s, regional policies were mainly redistributive, focusing on compensating 'problem regions' with structural or geographical disadvantages through business aid or infrastructure investment to promote employment creation. Regional policies have also encompassed overtly social objectives, such as dealing with the consequences of high unemployment.

For the past three decades, EU policy has had a more allocative role, supporting the efficient use of endogenous resources in all regions, in particular through support for the start-up of new firms, SME development and innovation. However, social policy aims continue to be important, evident in the emphasis given to countering social exclusion and boosting the employment rate of vulnerable groups.

In the UK, the objective of regional policy has been primarily regional and local *economic* development aimed at improving national economic efficiency. Insofar as it had (has) a social dimension, this was concerned with alleviating the negative consequences of structural change, notably unemployment. This UK approach contrasts with the underlying philosophy of regional policies in many Continental European countries, where the objective of economic efficiency is accompanied by a commitment to social equity (Bachtler *et al.*, 2010; Davies *et al.*, 2015, 2016). In Germany, the Basic Law includes a constitutional goal of equivalent living conditions (*gleichwertige Lebensverhältnisse*) (Bundestag, 2010). French regional policy is also underpinned by a constitutional obligation for government to promote equality between territorial authorities, combining regional economic competitiveness and territorial and social cohesion (MEF, 2015). There is a similar provision in the Italian constitution, and policy actions in a range of other countries – Finland, Norway, Poland, Portugal, Spain, Sweden, Switzerland – are grounded in policy objectives for 'balanced development' and 'solidarity' (Bachtler, 2017).

These European traditions are also reflected in the objectives of EU Cohesion Policy, stated in Articles 174 to 178 of the Treaty on the Functioning of the European Union. To address 'obstacles' to European integration, the European Community made provisions from the start for the ESF (created in 1957), complemented by the establishment of the ERDF in 1975, following the accession of the UK. These funds were brought together with the then European Agricultural Guidance and Guarantee Fund (EAGGF, Guidance Section) as 'Structural Funds' from 1988 onwards (complemented from 1994 by the Financial Instrument for Fisheries Guidance, FIFG) and were allocated an increasing share of spending, now accounting for about one-third of the EU budget.

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This policy framework for meeting the EU objectives of economic, social and territorial cohesion has continued to the present day. There is, though, an ongoing academic and policy debate on the relative merits of a place-based approach to economic and social development compared to so-called 'people-based development' (Barca, 2009; Bachtler *et al.*, 2010; Seravalli, 2015). On the basis of theoretical work relating to the spatial agglomeration of economic activity (Krugman, 2011, Venables, 2010), the World Bank (World Bank, 2009) and others have questioned the efficacy of regional policies, advocating instead 'spatially-blind' policies (e.g. common standards of public services such as education and health, flexible labour markets) to facilitate migration and concentration (Brakmann *et al.*, 2005).

In a European context, however, it has been questioned whether migration and development will reduce disparities, apart from the social and environmental implications of agglomeration (Rigg *et al.*, 2009; Scott, 2009; Garretsen and Martin, 2010; Hart, 2010). Institutional theories have emphasised the importance of 'place' in explaining growth and the spatially-contingent economic and institutional factors underlying uneven socio-economic development (Williamson, 2009; Farole *et al.*, 2009; OECD, 2009a, 2009b; Rodriguez-Pose, 2010). This line of thinking was applied to the rationale for EU Cohesion Policy in the influential Barca Report which argued that the place-specificity of natural and institutional resources requires both economic and social policy interventions to be tailored to places – rather than being aspatial or targeted at sectors (Barca, 2009). Crucial to this approach are governance structures that can determine an 'optimal mix' of investment priorities (infrastructure, social inclusion, human capital, innovation, R&D etc) as part of integrated development strategies involving vertical coordination (between levels of government) and horizontal cooperation between relevant economic and social actors at each level.

These conceptual debates are reflected in the tension in EU policymaking between an increasingly strong emphasis on policy objectives and institutional reforms to promote economic growth, employment and social inclusion, and a territorial approach for responding to the development needs and challenges of regions, cities and localities. In the social policy field, in particular, there are periodic questions as to whether EU employment and social policy objectives are better achieved through 'horizontal' or 'place-based' policies (Begg, 2010; Bachtler *et al.*, 2016).

EU Structural Funds in the UK

The UK has been a major beneficiary of the Structural Funds since its accession to the (then) European Community (see Figure 1). Over the period from 1975 to 2020, the UK has been allocated some £66 billion; with public and private sector co-financing of programmes, the funding for EU-supported regional economic and social development exceeds £100 billion. Especially in the 1970s and 1980s, the

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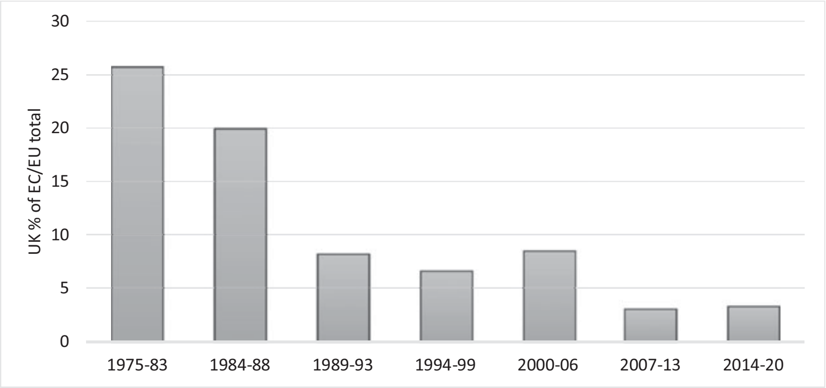

Figure 1. UK share of EC/EU Cohesion Policy appropriations, 1975–2020
Note: ERDF and ESF up to 1988, thereafter for all Structural Funds 1999–2020.
Source: ERDF and ESF annual reports, Bachtler *et al.* (2013).

UK was one of the biggest recipients of EU funding given the scale of its industrial problems and associated unemployment. Until 1988, the UK received 20–25 per cent of the ERDF budget mainly for infrastructure projects in industrial regions and some rural areas, and up to a third of the ESF budget for employment and training programmes, in particular to help manage sectoral restructuring.

Throughout the 1990s and into the 2000s, the UK remained a substantial beneficiary from both funds but, since the 2004 enlargement of the EU, the amount received has progressively shrunk. From 2007 onwards, Structural Funds became available to all regions in the UK, though with a continued focus on the lagging (now termed 'less-developed') areas accorded higher levels of funding.

The current allocation of Structural Funds to the UK for the 2014–20 period is £10.3 billion, of which c.£4.3 billion is for social policy. The highest per capita aid levels are in Wales (c. £690 per head), Northern Ireland (c.£300), North East England, and South West England (both c.£250). EU funding is particularly important in two 'less-developed' regions – West Wales & The Valleys and Cornwall & the Isles of Scilly – which have the most generous programmes in terms of aid and flexible conditions on investment. Other important recipients are North West England, the West Midlands and Scotland (see Figure 2).

The domestic significance of Cohesion Policy

The level of EU funding of the ESIF in the UK equates to only 0.1 per cent of UK GDP and could be regarded as inconsequential, yet has important achievements and genuine additionality. Projects and localities that have come to rely on the funding would feel its loss. This disjunction between the relatively modest aggregate scale of support from the policy and its ability to make a difference at project level bears on the politics of change. At local level or for those involved

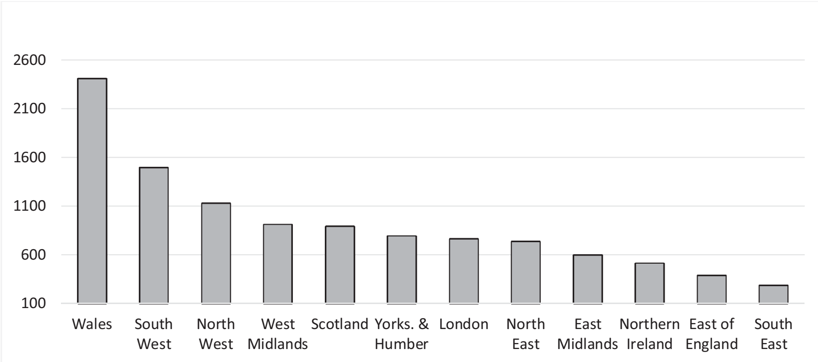

Figure 2. Allocations of Structural Funds within the UK, 2014–20

in supporting disadvantaged social groups, the mere fact of a public policy commitment matters. Previous studies of the 'added value' of Cohesion Policy have consistently argued that economic development spending by national and local government would be lower in the absence of the requirement to co-finance ESIF (Polverari and Bachtler, 2014). Given the absence of alternatives for many of the objectives supported by the ESF, it is likely to be an even greater factor in social policy.

At EU level, the performance of the funds has been contested, not least because of divergent results from evaluations of the impact and efficiency of the Structural Funds (Boldrin and Canova, 2001; Ederveen et al., 2006; Rodriguez-Pose and Fratesi, 2004; Polverari and Bachtler, 2014). The main methodological approaches employed – modelling, econometric research, micro-economic studies and case-study research – all face challenges of accurate and timely data and the intractability of constructing a convincing counterfactual. Some of the more influential findings cast doubt on whether there any benefits, prompting questions about whether post-Brexit policy should retain, adapt or reject the EU's favoured approaches (Davies, 2017).

Nevertheless, verdicts on EU Cohesion Policy have become more positive in recent years, although the extent of variation in results remains striking. The most recent evaluation of the ERDF's contribution in the UK concluded that, over the 2007–13 period, EU-funded interventions led directly to the creation of over 152,000 jobs, over 29,000 of them in SMEs and c.3,800 in research. Additional investment supported through EU funding was estimated to have increased GDP in the UK in 2015 by 0.1 per cent beyond its level in the absence of the policy (after allowing for the UK's contributions to the financing of Cohesion Policy) and projected GDP to be 0.2 per cent higher by 2023 (Applica *et al.*, 2016).

Evaluations of the ESF also contain some evidence of impact. Larger numbers of people in the UK participated in EU-funded employment and training schemes (7 million participants in the Action to Employment programme) than would

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otherwise have been possible (Metis *et al.*, 2016), and there are positive results for employability in both England (Ainsworth and Marlow, 2011; Kearney and Lloyd, 2016) and Scotland (Hall Aitken, 2012). The ESF also appears to have contributed to a reduction in regional differences in employment rates and skill levels, albeit to a variable degree across the country (Ainsworth *et al.*, 2011).

The social dimension of EU policy in the UK

As in other member states, UK government authorities had the option to choose from a range of priorities in focusing their use of the ESF funding for social objectives in the 2014–20 period, opting for: inclusive labour markets (combining employment and inclusion objectives); and skills for growth. For England, the Department for Work and Pensions (DWP) chose to target the policy at groups facing disadvantage in the labour market, such as lone parents, women returners to the labour market, women from certain ethnic minorities characterised by very low employment rates, and 'NEETs'. Programmes cover all areas of England, recognising that target groups are found in prosperous as well as poorer regions. A stated objective is to use the ESF to assist those most disadvantaged on the grounds that they find it hardest to obtain jobs, with the implication that complementary domestic policies do not do enough in this regard. Once ESF programmes end in the UK after Brexit, the question will be whether and how to address this social need in domestic policy.

Much the same approach is evident in how youth policy is supported by the ESF, with support focused on those most disadvantaged and least connected to the labour market – NEETs and youths emerging from the care system are mentioned. In relation to poverty, the DWP (2015: 17) again assigns ESF funding to specific segments of its strategies on social justice and combating poverty, with an emphasis 'on people with multiple and complex barriers and marginalised individuals'. Examples include those with drug and alcohol dependency and offenders, as well as those subject to barriers to connection with the labour market, such as lack of transport. In relation to skills, the DWP approach is to use the ESF mainly to redress shortcomings in basic skills, but also to boost higher skills where there are gaps in national provision.

In Scotland, Wales, Northern Ireland and Gibraltar, investments also target the unemployed (especially young people), women, those on low incomes, single-parent households and deprived communities. Support, too, is being provided for educational attainment and vocational training, including apprentice schemes in Northern Ireland, Gibraltar and parts of Scotland. A 'staged pipeline' system is being used in Scotland to tailor support around individual jobseekers, in contrast to using a generic approach. Projects promote labour market mobility and improve equal access to employment and training for jobseekers, and in particular those needing most help.

These interventions involve large numbers of people being supported under the different priorities (see Table 1). These are, however, forecast outcomes

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Table 1. Selected indicators for ESF Operational Programmes in the UK, 2014–20

OP	Priorities	Quantified outcome targets
England	Inclusive labour market	217,000 participants assisted into work. 78,000 young people assisted into work, education and training.
	Skills for growth	140,000 participants with improved basic skills. 300,000+ participants gaining qualifications at level 2 or above.
N.Ireland	Enhancing job opportunities	40,000 people supported.
	Youth employment	25,000 participants not in employment, education or training.
Scotland	Social exclusion and poverty	27,000 people assisted.
	Education and training	37,000 people gaining new qualifications.
	Youth Employment Initiative	6500 young people in south-west Scotland supported.
Wales	Tacking poverty	48,700 economically inactive (aged 25 and over) people assisted, not in education or training, who have complex barriers to employment. 14,600 long-term unemployed (aged 25 and over) assisted, who have complex barriers to employment.
	Skills for growth	40,900 employed assisted, including self-employed participants with no formal education. 70,000 employed assisted, including self-employed participants with qualifications up to and including a lower secondary education.
	Youth employment and attainment	63,800 participants not in employment, education or training.

Source: ESF Operational Programme documents. European Commission ESF website.

predicated on funding being committed up to 2020, and actual expenditure up to 2023.

At UK level, the Government has been at pains to distinguish ESF support from existing national schemes, and thus to demonstrate the 'additionality' of the funding. It follows that withdrawal of the UK from the ESF would entail the continuation of EU-funded schemes with additional domestic resources, replacing ESF funding with national initiatives or accepting a down-grading of the priority given to social groups currently supported by ESF, predominantly the most disadvantaged. Given the overall pressure on social policy budgets, specifically (including the establishment of a welfare spending ceiling as part of the *Charter For Budget Responsibility)* (HMT, 2017), and public finances generally, government will therefore be obliged to decide if it should maintain the distinctive support for the most disadvantaged. An open question in this regard is whether the promised 'Great Repeal Bill' (a misnomer, to the extent that it will convert

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EU law into national law, rather than discard it) will include the ERDF, ESF and other regulations associated with Cohesion Policy.

What might Brexit change?

There are many, often mutually exclusive, scenarios for the long-term effects of leaving the EU. However, there is no ready-made 'theory of Brexit' on which to base an assessment of its likely effects on cohesion within the UK or the prospective evolution of the approach to social policy. Leaving the EU cannot simply be conceptualised as the mirror-image of the theories of integration deployed to analyse joining an entity such as the EU. Although the UK economy, in the year after the referendum, proved to be resilient, Brexit proper is still to come. At the macroeconomic level, most studies suggest longer-term growth will be slower than if the country remained in the EU, with the outcome depending on a complex interplay between the future trade and investment regimes, together with the scope for adopting a different regulatory mix (Begg and Mushövel, 2016).

As with any disruptive economic event or process, Brexit will have uneven distributive effects, again depending on the detail of the future relationship between the UK and the EU27. A wide range of determinants will be influential, including future patterns of migration, dependency on EU migrants to fill jobs, the effects of switches in demand from imports to domestic suppliers, any loss of export markets and changes in the incentives facing different classes of investors (Baldwin, 2016). Some systematic sectoral effects can also be anticipated, such as adverse effects on farming or financial services from, respectively, losing EU subsidies or market access, or beneficial effects on fisheries if EU competitors are deterred.

Foreign direct investment (FDI) has been an important source of investment and jobs in some regional economies. Prior to the EU referendum, it was estimated that FDI could fall by 22 per cent over the next decade (Dhingra *et al.*, 2016). 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 and are, therefore, most vulnerable to a slowdown in foreign investment. Rural counties such as North Yorkshire and Dorset, and more urban ones, like West Yorkshire and Lancashire, are more integrated with the EU (Springford *et al.*, 2016). 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 and customs union which is the UK Government's current policy on Brexit.

The two-year process of negotiations following the triggering of Article 50 in March 2017 will be intensive and difficult, with no guarantee that a satisfactory outcome will be achieved by the spring of 2019. There will also be a need to negotiate new economic relationships with the rest of the EU,

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but also with other countries. Even in the most favourable scenarios, reaching such deals is likely to be a lengthy process. From a social policy perspective there are ramifications of uncertainty about the outcome, potentially disrupting plans for policy development, the emergence of both predictable and unforeseen difficulties as the contours of new settlements become clearer, and the risk of financial and executive resources becoming over-stretched, complicating the implementation of policy responses.

Future commitments to cohesion-related policy goals

Brexit outcomes will also depend on UK policy responses, the priority given to social and territorial inequalities and the institutional capacity at national and sub-national levels to meet specific regional and local challenges. In this respect, the UK track record is not promising. Policies on territorial development have been subject to sudden change, with the creation or termination of policies, instruments and governance arrangements, yet limited time for preparation or scrutiny, undermining their potential effectiveness and efficiency (NAO, 2013; Martin *et al.*, 2015; Bachtler, 2017).

Although the impact of Brexit on UK public finances was a prominent theme of the referendum campaign, it focused mainly on the direct savings from ending UK contributions to the EU budget, neglecting some of the indirect effects which surfaced subsequently, not least the likely 'divorce bill'. In relation to Cohesion Policy, there are two important budgetary issues. The first is whether funding for the social policies and for regional economic development currently channelled through the EU is continued, recognising that any direct saving from ending payments into the EU budget is likely to be over-shadowed by the induced effect of GDP changes on the public finances. The Treasury is known to be taking a zero-based budgeting approach to decisions on replacement funding, and much will depend on the case made by recipients for transitional or permanent support to allow the continuation of EU-funded programmes and projects – a lobbying process that has already started (e.g. GCC, 2016; WG, 2017; ICA, 2017).

The second question is whether the domestic co-funding (from public and private sector sources) will continue to be available, particularly for the many small-scale social projects that would not be viable without it. The multi-annual financial planning required for the ESIF effectively ring-fenced a certain level of funding in the budgets of government departments at different levels and other organisations in order to absorb money from ESIF. With public expenditure currently under great pressure, especially at local government level, there must be doubts, not least when there is already a crisis in the funding of social care. Some budgetary prioritisation is already underway in the transition strategies of managing authorities responsible for Structural Funds programmes to focus on projects with the greatest potential legacy (Woolford, 2016; Bachtler, 2017).

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Economic and social projects reliant on EU funding are having to reconsider investment plans and service provision, as well as looking for alternative funding sources (Macpherson, 2016; Zolle, 2016).

With some 1,000 projects expected to be funded through Structural Funds by the time of UK withdrawal, there are major risks which will vary across policy domains and sectors. During the 2014–20 period, the UK Government and DAs forecast that the EU-funded programmes for 2014-20 would support over 206,000 firms and create almost 81,000 jobs. Over two million people were expected to be assisted under one of the ESF-funded interventions for skills development, social inclusion, employability and youth training and employment. Previous research has shown the risks to economic development from a steep reduction or termination of EU funding (Di Cataldo, 2016). An immediate concern must be to avoid a sudden and damaging disruption of existing strategies and projects.

Beyond Brexit: rethinking UK policies

Beyond the issues of funding and the management of the transition process, there could be an opportunity for the UK, and its constituent jurisdictions, to devise new policy models better tailored to the socio-economic challenges of today. This prompts the question of what the optimal rationale, framework and mechanisms would be for fostering economic development in a post-Brexit UK. In this regard, the increasing separation highlighted by McCann (2016) between a dynamic, outward-looking and globally-orientated London (and hinterland) economy and the rest of the country is salient, as is the extent of social divisions. Manifestly unanswered and, at this stage, unanswerable are questions about how different parts of the UK will be economically affected by Brexit and, as a result, what sort of response will be required.

The challenges for UK policymakers are whether and how to develop a new approach to spatial imbalances and the distinctive ESF social objectives in a new political context and without the guaranteed funding, but also obligations, of EU Cohesion policy. The industrial strategy launched by the Department for Business, Energy and Industrial Strategy (DBEIS) implies continuity of the economic development priorities outlined in the UK 'productivity plan' (HMT, 2015), especially the focus on infrastructure investment. However, it does seem to signal a phase of more active intervention and a new emphasis on the 'importance of place' (Clark, 2016; Jones, 2016; DBEIS, 2017). Similar thinking about renewed territorial responses to inequality and social inclusion is evident among the DAs. In Scotland, the government is prioritising action to address regional economic inequalities, and development strategies in Wales and Northern Ireland both recognise the need for greater sub-regional balance.

There are several fundamental issues for policy debate about the successor policies to the ESIF.

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- *Policy rationale.* UK domestic policy for territorial development has historically not had the same interconnection between economic and social cohesion that has characterised the EU Structural Funds. The motivation for UK regional policy has been largely economic efficiency, in terms of promoting growth and competitiveness or reducing unemployment. By contrast with other European countries, a commitment to social justice is missing.

- *Policy funding for post-ESIF territorial development.* There is clearly no guarantee that the UK government will decide to provide funding to replace EU-funded policies, notwithstanding pressure from existing recipients. Given that the UK is undergoing its own process of change in institutional structures – notably the new fiscal settlement for Scotland and the push towards English devolution – attention will need to be paid to the relevant inter-governmental mechanisms and forms of multi-level governance. For the DAs, there are important decisions about how any successor funding is managed within the UK system, for example whether funding is allocated as part of the 'Barnett' formula – named after the 1970s government minister who devised it to allocate public money at differential rates to what are now the Devolved Administrations for Scotland and Wales (but not Northern Ireland) – or through other objective criteria (Bell, 2017).

- *Policy and institutional frameworks.* The UK has been inconsistent in its commitment to regional policy, with fluctuating political interest and resources, and intervention at different spatial scales. Moreover, the weight accorded to social objectives has been erratic. The current subnational development landscape in England, for example, is characterised by different types of 'deal' between city authorities and local enterprise bodies, and loose regional frameworks (Northern Powerhouse, Midlands Engine) guiding discretionary spending decisions. A pressing issue is to create a stable long-term institutional framework for subnational economic and social development that transcends electoral cycles. Brexit might well offer opportunities for a new UK-wide socio-economic development approach, or at least mechanisms for cooperation, comparable to those in countries with federal or devolved systems of governance such as Austria, Germany, Spain and Switzerland.

- *Policy focus.* The Europe 2020 strategy narrative that underpins EU policy today may not survive Brexit. However, the key EU themes of social inclusion, innovation, entrepreneurship, low carbon and employment – on which most Cohesion Policy funding is spent – would probably also feature strongly in any UK domestic policy.

- *Policy rules.* Current policy has strings attached that could be loosened in a post-Brexit context. For example, investment in infrastructure has been restricted by EU rules (outside of the less-developed regions). Many of the

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administratively complicated EU rules on financial management, control and audit could also be simplified and brought into line with national practice.

- *Policy instruments.* It must be uncertain whether a post-Brexit UK policy would see the re-creation of multi-annual programmes as in today's Cohesion Policy. There is risk of reverting to an ad hoc, politics-driven approach to creating short-term instruments and funds of the types characteristic of recent UK domestic social and territorial development interventions. EU-funded financial instruments (loans, guarantees, equity) might well be retained; these have become a more significant component of public investment, favoured by the Treasury compared to grants because they are more conducive to deficit reduction, and involve the private sector more directly, but they are often trickier for sub-national governments to manage.

- *International cooperation.* With an EU allocation of £820 million, the UK participates in 14 cross-border, transnational and interregional programmes, mainly with neighbouring countries. This may be one area of EU policy that continues, with the UK participating as a so-called 'third country' and funding its involvement wholly through domestic resources. These programmes have a major political value for some DAs, notably cross-border cooperation in the case of Northern Ireland, and Scotland's transnational cooperation with the Nordic countries (Soares, 2016; de Mars *et al.*, 2016). This may also be relevant for south-east England, depending on future border control arrangements with France and the prospect of resulting social tensions. More broadly, participation would enable the UK to demonstrate its continued commitment to European cooperation outside the EU.

Conclusions

One of the striking features of the 2016 UK referendum on the EU was the strong spatial dimension to the pattern of voting. While not as simple as a division between prosperous and less prosperous localities, or between 'haves' and 'have-nots' among voters (Clarke *et al.*, 2017), these divisions testify to a disunited kingdom. An obvious implication is that Brexit will be socially divisive and that, in the aftermath of Brexit, a sustained policy effort will be needed to overcome these divisions.

Although subject to considerable uncertainty, it is probable that Brexit will reduce UK growth and jobs over the medium-term. The impact on unemployment or on job opportunities for the indigenous population or established foreign-born residents depends on how labour supply – particularly of EU nationals – reacts. If Brexit deters mobile EU nationals, the UK labour market could move to a new equilibrium of fewer workers and fewer jobs, but with no

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change in unemployment. A consequence could be to aggravate recruitment difficulties in a variety of services, especially those in sectors such as hospitality, health and social care, which are poorly paid.

Lower growth would also affect the public finances. Whether or not this would be offset by the reduction in UK contributions to the EU budget depends on the extent of any GDP change, although the likelihood in the short-term is that the public finances will be £12 billion per annum worse off[1], exceeding the potential gain from no longer paying into the EU budget. Moreover, because of the likely 'divorce' bill, there will probably be a lingering cost for 4–5 years beyond the conclusion of exit negotiations, even if the UK decides not to participate in any EU spending programmes, such as for research.

At UK level, the amount of funding allocated by Cohesion Policy programmes is not that great, but for local authorities and other organisations in some parts of the UK, it is an important source of revenue. Without it, some economic development or social projects will not go ahead at the same scale, over the current timescale, or even at all. A contentious policy question is whether any of these budgets survive Brexit, even with the most favourable outcome for UK public finances.

The most immediate requirement is a decision about how the remainder of the 2014–20 programme period will be managed for UK recipients. In this regard, it is not just the negotiations with the EU27 that matter, but also the domestic negotiations between different interest groups and parts of the UK. It could mean delay in settling future economic and social development arrangements with adverse consequences for local strategies and difficulties in taking forward projects.

In the longer term, Brexit will entail the recasting of spatially-targeted social and economic development policies, and the institutions involved in delivering these policies will need fresh thinking. UK spatial policy has been less stable and subject to more politically driven changes than elsewhere in the EU, lacking a long-term strategy that can transcend changes in government. It has been subject to major upheavals and numerous iterations over the past 30 years, with institutions coming and going, along with the corresponding expertise of practitioners. The opportunity for a fresh approach is vulnerable to the dearth of institutional capacity crucial to develop a substitute for EU Cohesion Policy, potentially leading to medium-term difficulties for the less favoured social groups and regions across the UK.

On balance, economic development and social policy at sub-national level in the UK will have more to lose than to gain from Brexit. This will have social consequences and can be expected to add to demands for social policy responses, at a time when the public finances are under pressure. There will be difficult choices to be made about which tier of government in the UK assumes the burden, both institutionally and financially.

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Note

1 Evidence from Robert Chote, head of the Office for Budget Responsibility, to the Treasury Committee following the publication of the 2016 Autumn Statement.

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