



What has been the impact of European Structural and Investment Funds?

A briefing for Cornwall and Isles of Scilly

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Economic Growth and Development



European Union

European Structural
and Investment Funds



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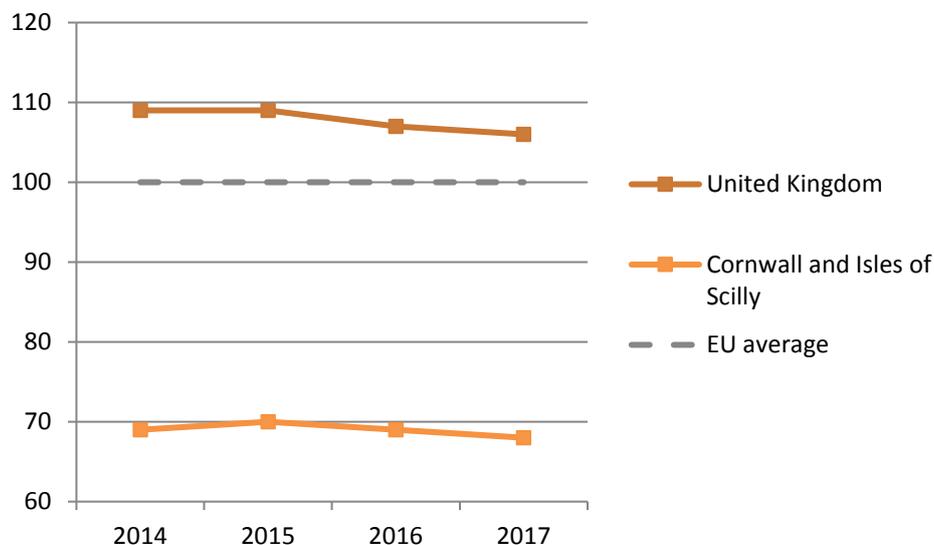
Executive Summary

This report looks at how European Structural and Investment Funds (ESIF) have been invested and the impact that they have had. The investments have been used to build a solid base for the Cornish economy providing improved access to research & higher education, better business infrastructure, improved transport and connectivity, enhanced skills and more inclusion whilst also assisting rural development and fisheries. Although we have not yet closed the gap with our nearest economic competitors, these investments have helped to reduce economic and employment gaps between Cornwall and Isles of Scilly and other parts of the UK. Cornwall's economic future is a positive one, yet there are risks if funding is reduced prematurely or in an un-managed way.

Introduction

With Cornwall and Isles of Scilly's (CloS) GDP per capita at 68% of the EU average and other economic indicators suggesting that the Cornish economy lags behind the rest of the UK, some have questioned whether European Structural and Investment Funds (ESIF) have been spent in the right way and that the region has not made the most of the funding. The graph below shows the change in GDP per capita (as a % of the EU average) since 2014 for both CloS and the UK. As can be seen, although Cornwall's GDP per capita has fallen back from 70% of the EU average in 2015 to 68% in 2017, this is a national trend with UK GDP per capita falling back from 109% of the EU average in 2015 to 106% in 2017.

Fig 1: GDP per capita (as a % of the EU average)



Source: Eurostat.

To some, this may be used to suggest that ESIF has not benefitted Cornwall & IoS and the other UK regions, hence it is therefore vital to clearly set out the impact of EU funding in Cornwall & IoS. This is to counter the narrative that EU funding has not delivered the economic and social benefits for which it was designed. This briefing is set out as follows. The first section looks at what the funds have been invested in and the solid foundation that has been built for the CloS economy; the second section then looks at the impact of EU funds and what has happened in other regions; and, finally our vision for the future is set out with plans to build on the solid foundation that have been put in place.

Section 1 – A look back

Cornwall and the Isles of Scilly have received considerable amounts of ESIF since 2000. The region has received this funding since it is categorised as ‘Less Developed’, with a GDP per capita below 75% of the EU average.

ESIF includes the European Regional Development Fund (ERDF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD), and European Maritime and Fisheries Fund (EMFF). Since 2000, there have been 3 programmes: the Objective One programme, the Convergence programme and, most recently, the Growth Programme. CloS received £350m from the EU during the Objective One programme and this leveraged a further £550m in match funding, totalling £900m for the programme. During the Convergence programme, Cornwall received £555m from the EU. This was matched by £514m however this only includes ERDF and ESF match¹, leading to a total of £1,079m. For the Growth Programme, CloS has been allocated £620m from the EU and to date there has been match funding equal to £106.8m, but this figure will increase as the programme continues.

However, the issue is not just the amount of funding received, but also the structure of the programme. This has changed since 2000 and it highlights that local devolution of the decision making is also important. For Objective One, all four funds were in a single programme for CloS. This changed dramatically for the Convergence programme, where there was a local ERDF programme, a separate chapter for CloS in a national ESF programme and a regional EAFRD programme with less local decision making. For the current Growth Programme, all four funds are in national programmes but with local strategies and CloS had to fight hard for an Integrated Territorial Investment and Intermediate Body status.

Investments

The Objective One (2000-06) and Convergence (2007-13) programmes in Cornwall and the Isles of Scilly were recognised by the European Commission for their innovative use of funds and tangible results in stimulating economic output.² The 2014-20 programme has built on this innovative approach and is driven by an evidence based investment strategy. This section provides some examples of how the funding has been used over the past two decades. This is for illustrative purposes, and is not intended to be comprehensive.

¹ The match total is likely to be higher when including EAFRD and EMFF private and public match.

² <https://www.cornwall.gov.uk/media/3622927/Post-2013-European-Funding-Building-on-Success.pdf>

1.1 Research and higher education

Higher education in Cornwall was very limited before 2000. The lack of opportunities to study in the region contributed to a brain drain of talented young people. Businesses in Cornwall were deprived of access to both high level skills and applied research. When Cornwall gained Objective One status in 2000, it was welcomed as an opportunity to address the region's economic challenges and to move towards a more knowledge based economy. The creation of a credible higher education infrastructure was seen as key to stimulating the economy.³

Objective One funding was instrumental in supporting the development of the Combined Universities in Cornwall (CUC) as a unique initiative, comprising a number of projects and investments, to support economic regeneration through education. The European Union has recognised the combined effect of a growing graduate workforce, specialist support for local businesses and academic research as an innovative means to stimulate growth in the local economy and consider the CUC to be a pioneering model for university provision.

The projects include activity to widen participation in higher education to people from more disadvantaged backgrounds, and to boost employment of recent graduates in small and medium sized enterprises in Cornwall. Initiatives like this, along with widened availability and variety of higher education are helping to reduce the number of educated young people who leave the county.⁴ As can be seen, good progress has been made in this area, however there is still more work to be done to raise aspirations and keep young people in Cornwall.

1.2 Business Infrastructure

It was recognised that Cornwall and the Isles of Scilly lacked modern, good quality and flexible workspace which was needed to encourage the creation and growth of new businesses which would develop the knowledge economy. Hence, the innovation and incubation elements of the EU funding programmes have provided new and enhanced facilities to address the shortage of specialist support available to companies and individuals. This includes the three Innovation Centres (Pool Innovation Centre, Tremough Innovation Centre and the Health & Wellbeing Innovation Centre based at Treliske), which provide premises and support services for SME tenants and other local businesses. At present, both Pool and Tremough Innovation Centres are over 90% occupied with the Health & Wellbeing Innovation Centre over 80% occupied. An

³ <https://www.cioslep.com/assets/file/Empowering%20Enterprise.pdf>

⁴ http://ec.europa.eu/regional_policy/en/projects/united-kingdom/stemming-the-brain-drain-the-combined-universities-in-cornwall

evaluation of the centres showed that they have improved productivity for beneficiary businesses and increased the rate of innovation, as well as generating a net long term boost to GVA worth £85m.⁵

1.3 Transport and connectivity

The successive EU funding programmes have been used to overcome economic hurdles associated with peripherality and poor external connections, from spearheading the growth of broadband, to developing Cornwall Airport Newquay and removing bottlenecks on arterial transport routes across the county. These include the dualling of the A30 at Goss Moor and the main rail line between Truro and St Austell. Cornwall Airport Newquay was the UK's fastest growing airport in 2017, with passenger numbers increasing by 22% to 454,000⁶ during the year.

The Superfast Cornwall programme has brought fibre broadband to more than 95% of premises in Cornwall.⁷ This has enabled existing businesses to increase productivity by implementing digital technology such as remote storage, and has stimulated the creation of new businesses. An independent evaluation estimated that up to March 2018 the Superfast programme delivered an estimated 3,490 new FTE jobs and a GVA uplift of £137m.

1.4 Skills and inclusion

The European Social Fund has supported a wide range of projects to improve education and skills, and increase employability among those furthest from the labour market. An evaluation of the 2007-14 programme concluded that it had increased overall employment including among women and older people, reduced the number of people without qualifications, and the number of young people not in education, employment or training. In addition, the programme raised the education and career aspirations of younger people, supported cutting-edge business start-ups, fostered links between businesses and researchers, and built capacity in the voluntary and community sector. The programme evaluation also points to the many case studies which demonstrate the long term positive impacts at an individual level.⁸

1.5 Rural Development and Fisheries

⁵ <http://www.erdfconvergence.org.uk/userfiles/files/C&IoSERDF200-2013EvaluationInnovandR&Dthematicreport.pdf>

⁶ <https://www.independent.co.uk/travel/news-and-advice/newquay-airport-fastest-growing-uk-passengers-flights-luton-heathrow-gatwick-manchester-stansted-a8154956.html>

⁷ <https://www.superfastcornwall.org/current-programme/evaluation-2011-2015-programme/>

⁸ http://www.erdfconvergence.org.uk/userfiles/files/GrowthProgramme/esf_evaluation.pdf

CloS is the one of the biggest fishing regions in the UK and plays a leading role in the English fishing sector with Newlyn being the premier fishing port in England and one of the largest in the UK. In 2017 the value of fish landed in Cornish ports was £46.1 million, up on the 2016 total of £43.4 million. The European Maritime and Fisheries Fund (EMFF) has been used successfully in Cornwall and the Isles of Scilly to lay the foundations for a high quality fisheries sector. Through education and investment in new methods of fish handling, leading to more sustainable practices and higher quality, the Cornish/IoS fishing industry has arrived at a strong position where local produce is trusted and known for its high quality, consistency, traceability and long shelf life. This in turn has strengthened the economic linkages to the processing and the tourism sectors and contributed to the local economy's overall productivity.

For example, the refurbishment of the fish market and related facilities at Newlyn will enable 24 hour operations and full refrigeration, powered by solar energy. The Cornwall and Isles of Scilly Fisheries Local Action Group has also been established to support projects relating to innovation, research and diversification; encouraging young people into marine careers; and safe working harbours.⁹

Building a solid base

As can be seen from the above, the funds received from the European Structural and Investment Funds have been spent in a way which has built a solid foundation for the Cornwall and Isles of Scilly economy. There is no quick fix for economic development but the investments made to date, and those which are being made today, are building a strong economic base for CloS to thrive. The investments have created jobs, supported the people and businesses of Cornwall and the Isles of Scilly and provided economic growth, which may not have happened without it. As the next section shows, not only has Cornwall closed the gap with other areas, but also it has built on previous funding which if taken away can have damaging impacts on the local economy.

⁹ <https://marinedevelopments.blog.gov.uk/2017/01/18/cornwall-and-isles-of-scilly-flag/>

Section 2 – Impact of ESIF

Section 2 highlights where Cornwall and Isles of Scilly has closed the gap with other areas. This is highlighted by independent evidence from the London School of Economics which illustrates the positive impact of the European funding programmes on Gross Value Added (GVA) and employment in Cornwall and Isles of Scilly and also, the impact that premature removal of this funding can have on areas which need further support.

This is all in a context of increasing regional inequality in the UK. Research by Professor Philip McCann of the University of Sheffield undertaken for the UK2070 Commission¹⁰ concluded that: “The UK is one of the most interregionally unequal countries in the industrialised world, and almost certainly the most interregionally unequal large high-income country.” Alongside this, EU funding is not the only factor to consider. Since 2000, there have also been major macroeconomic events such as the global financial crisis and UK wide austerity. Add to this that existing government economic development funding tends to flow to more prosperous places such as London and the South East¹¹ Cornwall could have been a lot worse off were it not for ESIF.

Gross Value Added (GVA)

The 2016 paper published by the London School of Economics critically assesses the impact of EU regional funding on Cornwall and Isles of Scilly and South Yorkshire (which lost Objective One status in 2006).¹² This includes a counterfactual analysis of GVA, comparing the two regions against synthetic control regions, based on those which did not benefit from the same levels of funding. The study concludes that “Cornwall has made good use of Objective One funds. EU policies have helped to lower the proportion of people claiming unemployment benefits and reduce the income gap with richer regions.”

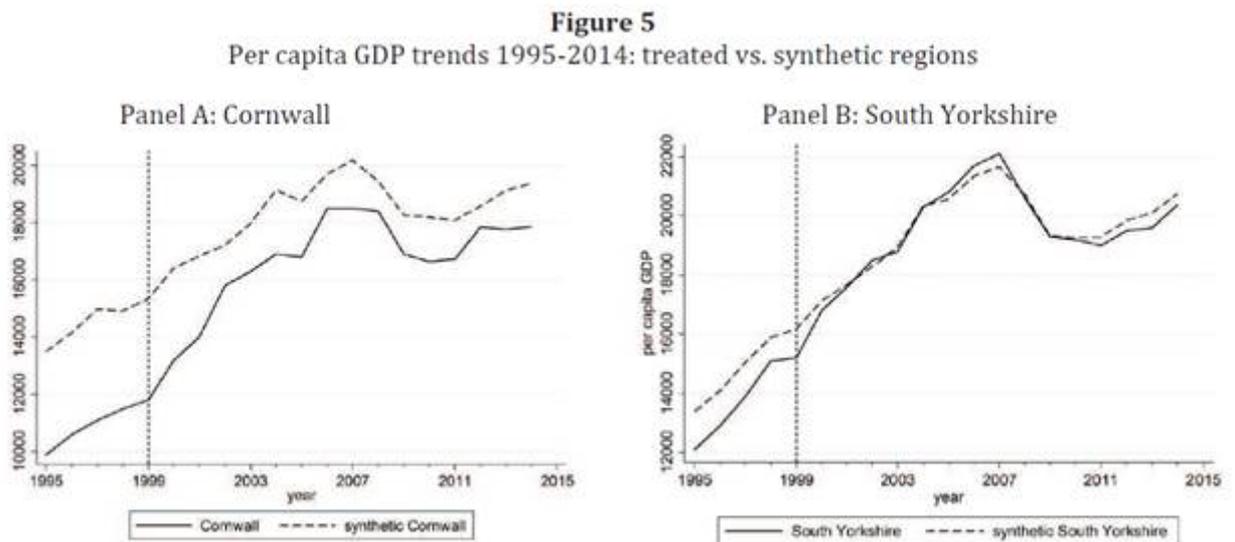
The following charts compare the long term trend in per capita GDP. Cornwall performs worse than the synthetic control region because it has lower per capita GDP to begin with; however this gap narrows following the beginning of Objective One: “Cornwall has partially closed the income gap ... the distance

¹⁰ Professor Philip McCann, Perceptions of Regional Inequality and the Geography of Discontent: Insights from the UK. Available at: <http://uk2070.org.uk/wp-content/uploads/2019/01/01-McCann-UK-Regional-Inequality-Debates.pdf>

¹¹ Communities in Charge: Give people the power to prosper after Brexit, available at: https://locality.org.uk/wp-content/uploads/2019/06/Communities-in-Charge-Campaign-Report_FINAL_20190607.pdf

¹² <http://www.lse.ac.uk/european-institute/Assets/Documents/LEQS-Discussion-Papers/LEQSPaper120.pdf>

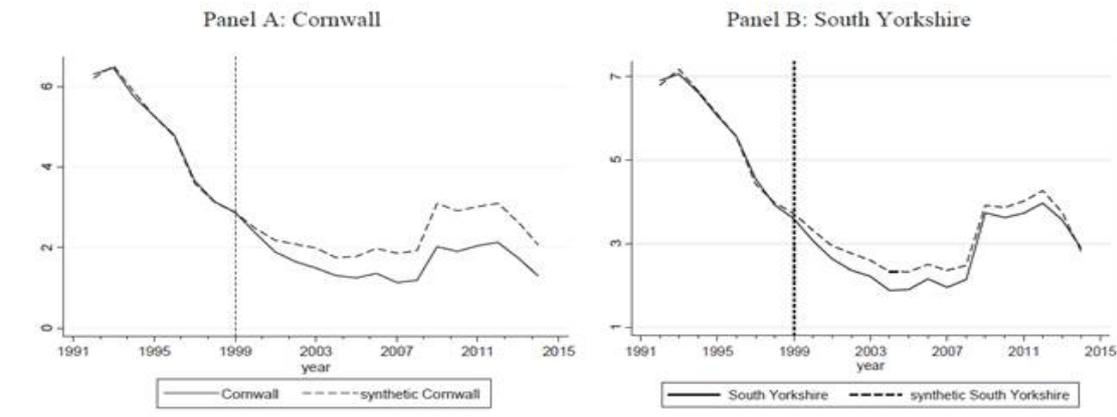
between Cornwall and control region is progressively reducing over time.” This highlights the positive impact that the investments have had with regard to promoting economic growth. This further strengthens the argument that without ESIF things may have gone the other way.



Employment

The LSE paper also highlights the positive impact of EU funding on unemployment in Cornwall. The authors state that “No other region in the sample has witnessed a reduction in unemployment as large as the one experienced by Cornwall ... throughout the Objective One period Cornwall has reduced the proportion of unemployment benefit claimants more than regions not eligible for Objective One grants”. The charts below show that the rate of unemployment benefit claimants in Cornwall dropped below that of the synthetic control region shortly after the introduction of Objective One, and has remained significantly lower. Whereas the rate in South Yorkshire was below the synthetic control region during the Objective One period, but rose in line with it after 2006 when funding was reduced.

Figure 3
Unemployment trends 1992-2014: treated vs. synthetic regions



The positive impact on employment is also highlighted when looking at workless households. Analysis carried out by the Economic Growth Policy and Intelligence team shows that the percentage of workless households in Cornwall and Isles of Scilly was 15.1% in 2017¹³. This is a reduction of 4.5 percentage points since 2007 and CloS is the 2nd best performing of the 38 LEPs over that period, bettered only by London. Reducing household worklessness is vital in trying to improve household income and quality of life.

What has happened in other areas?

Although there have been lots of positive impacts of ESIF since 2000, GDP per capita in CloS remains stubbornly low, at 68% of the EU average. However, a part of this is the effect of the continuing growth of London and other more prosperous regions. In fact, as mentioned before, the UK is one of the most unequal countries in the EU, where London continues to grow ahead of the other areas of the country.

CPMR have produced a report looking at the EU funding UK regions would have received had we not left the European Union. The UK would have stood to receive €13bn from 2021-2028 - 22% more than the current 2014-2020 programme and this increase can largely be explained by the fact many areas in the UK are falling behind the EU average in terms of regional prosperity. Not only would the two already 'less developed' regions have remained in the category, but five further UK regions would have fallen into the category: South Yorkshire, Tees Valley & Durham, Lincolnshire, Southern Scotland and Outer London East. This highlights the growing disparities between UK regions and that had Cornwall not received the funding it has over the past 20 years, the situation could have been worse. This analysis shows that regional disparities in

¹³ This figure is a 3 year average for the year's 2015, 2016 and 2017. Using a 3 year average reduces the variation in the data and provides a more accurate figure. Source: NOMIS, Annual Population Survey.

the UK are increasing and makes a clear case for why a regional development funding is needed more than ever.

However, it is not the case that CloS will require support forever, as the previous section set out previous funds have been used to create a solid economic base for Cornwall to grow. The issue is ensuring that the support is not removed prematurely. South Yorkshire is an example of the issues around becoming a 'transition' region. Much of the employment and GVA gains achieved in South Yorkshire have not been sustained since its funding was reduced in 2006 when it moved to transition region status. In the subsequent period the region's economic performance was among the worst in England and as mentioned above, the region would have been 'less developed' for the next EU funding programme period. The LSE paper highlights that "The experience of regions which have lost their priority status for the highest level of EU support shows that robust transition arrangements are an important factor for designing new funding models. It is also vital that any programmes emphasise the need for actions that will have a sustainable benefit and will remain viable without financial support."

The Spanish region of Galicia is another example of how transition needs to be managed in a careful and considered way. It received the highest levels of EU funding for 25 years from 1989 to 2014, with a focus on accessibility, infrastructure and business productivity. Counterfactual analysis found that EU funding had an important impact on the rate of growth and employment in Galicia, in comparison to a baseline scenario with no EU investment.¹⁴ The region was reclassified as a 'more developed region' for the 2014-20 period, missing out the transition phase. However the last few years have seen Galicia's economic performance stall slightly. With GDP per capita currently at around 80% of the EU average, the region would now be classified as in 'transition'.

Cornwall's economic future is a positive one, yet there are risks if funding is reduced significantly or in an un-managed way. The Local Industrial Strategy for CloS, currently in development, will outline how post-Brexit regional funding would be used to embed the economic progress achieved to date, so that growth is inclusive and sustainable for decades to come. It will be based on detailed evidence about the strengths and needs of the economy and a comprehensive stakeholder engagement exercise will ensure that the plans meet the needs of businesses and communities.

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http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/eval2007/cohesion_achievements/galicia.pdf

Section 3 – Vision for the future

Cornwall and the Isles of Scilly have a strong vision for the future economy. Looking beyond the current EU programme, CloS are in the process of developing a Local Industrial Strategy which will inform the delivery of the proposed UK Shared Prosperity Fund, which is expected to replace the current EU programmes. In CloS we would have anticipated £50-60 million a year from the next EU funding programme and this is the level of funding we will want to see from the UK SPF. This is in addition to other sources of national government funding such as the growth deal funds.

Through a concerted effort over the past 20 years, we have built a strong foundation for a thriving CloS economy. This we are proud of, however we have more work to do to ensure that prosperity is felt by all within Cornwall. Going forward we will have a relentless focus on inclusive and environmental growth, the skills agenda and on ensuring good quality jobs. We want to blaze a trail when it comes to social inclusion, which we expect to be a bigger focus for us than many other areas because of the issues we face. We have one of the oldest working populations in the UK, and above average disability and long-term health conditions but these challenges also present opportunities.

Another key focus area for us going forward is to ensure that regions such as CloS are given equal opportunity to prosper. Our region already has the skills and expertise to make an important contribution in many of these fields, and we believe our rurality and distinctiveness can be strength in pioneering new ways of doing things and challenging urban-centric policymaking. We are currently lagging behind the UK average on a range of key indicators such as productivity, research and innovation and export performance. We believe that the centralisation of UK economic policy and funding decisions is one of the main drivers of regional inequality. We need to revive the devolution agenda and ensure that funds and decision-making is returned to the regions so we can ensure a better future for all people living within our regions.

We have already identified opportunities for the future and have been focusing on space, renewable energy and the creative industries to grow our and the nation's economy. This is all set against a climate change agenda where there is an important economic opportunity for CloS to continue to evolve the technology and systems to ensure the sustainable management of resources and the environment. A key driver for productivity is CloS's connectivity. Continued improvement is needed in local transport networks and full rollout of superfast broadband must also be completed. Maintaining and extending the

competitive advantage of digital connectivity in this context is a key prerequisite for the success and prosperity of businesses and people of CloS.

In order to boost productivity and improve wellbeing there is a need for a better range and quality of jobs in Cornwall and the Isles of Scilly. Major investment opportunities such as at Cornwall Newquay Airport/Spaceport and Goonhilly linked to improving infrastructure and connectivity mean that there are opportunities for the demand and supply of skills to be brought into sync. The evolution of digital skills will continue to be important not just for creative sectors but also those such as Agri-food to enable compliance and resource management. Over the last few months we have begun drawing up a Local Industrial Strategy. This will contribute to the UK's national strategy, and help address society's 'Grand Challenges', including tackling an ageing society, delivering clean growth and harnessing the power of data and artificial intelligence.

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