CUMBRIA
LOCAL
ENTERPRISE
PARTNERSHIP

David Rees
Assembly Member
Chair of the External Affairs and Additional Legislation Committee
National Assembly for Wales
Via Email

13 May 2019

Dear David,

PROPOSALS FOR A SHARED PROSPERITY FUND

Thank you for your letter dated 2 May 2019, inviting views from counterparts in other nations to identify areas of mutual interest in relation to the Shared Prosperity Fund.

Cumbria Local Enterprise Partnership (CLEP), as one of the 38 Local Enterprise Partnerships in England, is clearly very interested in the Shared Prosperity Fund and intends to submit a response to the Business, Energy and Industrial Strategy House of Commons Select Committee inquiry into regional investment and growth, when it closes on Friday 17 May 2019. I therefore thought that it would be helpful to provide a draft copy of CLEP's response to this Select Committee inquiry, given that this outlines much of our thinking on the Shared Prosperity Fund.

I trust that sight of our draft response to the Select Committee provides a useful input to your preparation for the next Committee meeting.

Yours sincerely,

Lord Inglewood
Chair, Cumbria LEP

1. Inquiry into regional investment and growth

1.1 Cumbria Local Enterprise Partnership (CLEP) is delighted to respond to the new inquiry into regional investment and growth by the Business, Energy and Industrial Strategy House of Commons Select Committee.

1.2 CLEP is one of 38 LEPs in England set up in 2014. We are a business-led partnerships between our local authorities and the private sector in Cumbria. Our role is to determine local economic priorities and undertake activities to drive economic growth and the creation of jobs in Cumbria.

1.3 CLEP has been in the midst of developing our Local industrial Strategy (LIS)[1]. This is replacing our Strategic Economic Plan that was produced in 2014. The work in developing the LIS has involved wide-ranging consultation with our business community and out public sector and voluntary and community sector partners. We have also been updating and refreshing our evidence base, which has helped inform this response.

1.4 The Select Committee is setting out to examine the barriers to establishing new businesses, the role of regional bodies in promoting growth and how areas are prioritised for Local Industrial Strategies. You have set out five groups of questions and we respond to each of these in turn.

What is the role of the Government in addressing regional disparities for businesses across the UK? Does the devolution of powers, including City and Region Deals, the Northern Powerhouse, and Midlands Engine, provide LEPs and other bodies with the tools they need to deal with the issue?

What is the role of the Government in addressing regional disparities for businesses across the UK?

1.5 Government has an all important role in addressing regional disparities. These disparities have grown larger over the past decade, in particular as London and the Greater South East's economy has grown at a faster rate both in absolute size terms and in terms of productivity and GVA per head. There is much academic work and research identifying the long standing and stubborn regional disparities in the UK[2]. However, there are a wide range of views about the best solutions for them and some interesting work is underway to explore solutions including the **UK2070 Commission** (set up to conduct a review of the policy and spatial issues related to the UK's long-term city and regional development), although this is not due to report until 2020. There is certainly no quick easy fix to the

[1] See Appendix to this submission for details of our LIS

[2] Such as recent work such as: "Regional Economic Disparities And Development In The UK", NIESR Policy Paper. 010, Dr David Nguyen, January 2019;

problem but things that the Government could do that contribute to reducing the problem.

1.6 From a Cumbria perspective there are several areas and ways in which government policy and practice can actually perpetuate regional inequalities. These include:

- Public infrastructure investment, driven by **cost benefit analysis** in Webtag favours investment in already congested and rapidly growing areas – this tends to perpetuate disparities[3]. Spending on transport per head of population in Cumbria is far below that of most parts of London and the South East. In Cumbria we have to work hard to justify and make the case for transport funding, with factors such as the need to preserve effective infrastructure functionality in sensitive and nationally important locations or our 47 million visitors receiving the level of consideration deserved.. In our LIS we had the following policy ask that "*government transport appraisal criteria [should] take proper account of reliability and resilience issues, the need to service nationally strategic employment locations and full benefits from the visitor economy*".
- There are examples, such as that highlighted in the data on bank lending sent to the BEIS Select Committee, where national funds are set up and the access to those tends reflect the **existing** regional disparities and capacity in an area's business base to apply for and use funding – whether for innovation or investment. For instance the North West obtains a disproportionally low share of all Innovate UK funding for research support to businesses[4]. Over time these effect will simply exaggerate existing divides. Unless there is proactive support provided or perhaps some form of allocation to geographies from these national funding pots the great danger is that the bulk of funds will travel towards the already more dynamic parts of the UK. This point is illustrated by this extract from the Innovate UK data visualisation tool looking at the c. 2800 small companies that have received Innovate UK funding. The concentration in major cities and parts of the South East is clear.

[3] https://www.ippr.org/research/publications/future-transport-investment-in-the-north-briefing

[4] https://nwblt.com/wp-content/uploads/2018/09/Planning-for-a-Step-Change-North-West-Productivity-and-Innovation-Study-September-2018-002.pdf

1.7 The forces that attract investment and talent to the already successful part of the UK are very strong and require really major counterweight action to offset them. For instance in Cumbria, the University of Cumbria was set up some 10 years ago with the intention in part to improve access to HE in Cumbria progress has been made but Cumbria still has a distinct gap in our higher levels skills. Further investment in newer universities remains important to further their research capacity so they can play a full role in their local economies. Also, areas that have weaker innovation bases and innovation eco-systems (such as Cumbria) need further targeted support to increase the base of activity.

Does the devolution of powers, including City and Region Deals, the Northern Powerhouse, and Midlands Engine, provide LEPs and other bodies with the tools they need to deal with the issue?

1.8 Cumbria has not had a city deal although we are now benefiting from the Borderlands Inclusive Growth Deal. We are part of the Northern Powerhouse and Transport for the North. However, devolution can only extend so far at it depends on the scale of resources devolved.

1.9 However, in moving to a supra-regional geography it is important to recognise that the issues for collaboration are limited and will focus on areas of existing strength, which again will tend to favour locations with research heavy capabilities. Thereby, potentially accelerating rather than eroding disparities. It is therefore important that bespoke local interventions are also devised and implemented through the Local Industrial Strategies.

Are there barriers to new businesses being established in less-productive areas?

1.10 As part of the development of our LIS In Cumbria we have identified several barriers (most of which we suspect are applicable to other less productive areas) that are holding back our economy and preventing new businesses being established. These include:

1) Access to a pool of **higher level skills**. Cumbria has both a relatively small proportion of our workforce qualified to graduate level (although we have a relatively high portion qualified to level 3) and in absolute terms the number of higher skilled workers available to our businesses in what is a disperse geographic area is small. This is an issue that applies outside Cumbria in many more rural and less accessible areas. Less productive areas tend to have smaller absolute and relative pools of higher level skills.

2) Access to **digital connectivity**. We have seen rapid improvement in digital connectivity but still have much higher than average land areas and business base with limited access to superfast broadband, very limited access to ultra-fast broadband and poor access to 4G data and mobile connectivity. This is becoming an increasingly important issue in our ever more digital age.

3) Limited **innovation eco-system** (in terms of number of innovation active firms and lack of links between and across businesses outside the nuclear sector). Cumbria has few HE or government R&D centres, so in that sense its local innovation asset base is weaker than many other areas. This is an example where proactive government policy to re-distribution of innovation and R&D activity across the UK could help spread innovation more widely. Any mapping of innovation assets in the UK will show that they are disproportionally based in the golden triangle (London/Oxford/Cambridge) or in the very largest cities.

How does clustering affect other businesses in that region, for example: are Catapult Centres widening or limiting investment in their local areas?

1.11 This is an interesting question for Cumbria. We have no Catapult Centres or even outpost in our area. This is an example where investment by government tends to favour larger cities. We cannot comment on the impact of Catapult Centres indeed it is not clear how far they genuinely operate as national centres or tend to have stronger links with their local areas.

Are businesses outside of cities able to access finance and attract investment? How has existing support from EU structural funds supported regional growth? Will new Government measures, such as the Stronger Towns Fund and Shared Prosperity Fund, provide effective support for growth in these areas?

Are businesses outside of cities able to access finance and attract investment?

1.12 There is no intrinsic reason why business outside cities would be unable to attract finance and investment. However, much depends on the type of business. CLEP does not have any firm evidence that businesses in our area are less able to attract finance and investment than their counterparts in urban areas. There has been debate over whether there is a funding gap and whether business in areas where there are few lender and venture capitalists may suffer in attracting investment. We know that our successful businesses with outward looking management are able to fund their investment needs where they have strong business propositions. We have a wide range of businesses that have funded new investment to support expansion and access to new markets.

1.13 The issue in Cumbria is likely to be a demand rather than supply issue. The research for our LIS has identified that we have a weaker innovation ecosystem than many areas elsewhere, and low rates of business start-ups and faster growing businesses. This appears to be about the nature of our business base and population and less likely to be due to a general difficulty in accessing finance.

1.14 There is potentially an issue about businesses being investment ready and a need for a more comprehensive business support service being made available to businesses, particularly in areas such as Cumbria, where a high percentage of the business base is ineligible for EU Structural Funds due to the sectors in which they operate.

How has existing support from EU structural funds supported regional growth?

1.15 EU Structural Funds have for many years been an important source for economic development in areas that have been less prosperous economically. In the current ESIF programme Cumbria was identified by UK government as a "transition area" which means that our per capita funding was one of the higher levels in England. For the 2014-2020 programme period the notional allocation to the Cumbria LEP area was made up of around £44 million in ERDF, £34 million in ESF and £9 million in EAFRD[5] (for agriculture and rural development). As with all other LEP areas we developed an EU Structural & Investment Funds Strategy (in 2015).

1.16 The overall amount of ESIF works out at about £12 million per annum or roughly £25 per head of population in Cumbria.

1.17 Historically ESIF monies have been important source of funding in Cumbria to help support:

- Business support, via the Growth Hub, and financial support to SMEs as well as specifically support aimed at encouraging resource efficiency.
- Training both aimed at those seeking to enter the labour market and those in work
- Investment in sites and premises
- The support roll-out of superfast broadband into areas that would not receive purely private provision
- Enhancement of tourism infrastructure (new or improved facilities and under the current programme pathways and cycleways) – tourism is a key industry in Cumbria so the ability to support the sector has been welcome
- Supporting our environmental and natural capital assets.

1.18 We also believe that the use of a notional allocation for each LEP area has been on balance a very helpful development in the 2014-2020 programme. It provides for a degree of certainty in investment planning and avoids the danger of a "first come first served" approach which has tended to benefit the larger urban areas (in the North West) when there was a regional EU allocation. It also avoids the considerable cost and expense of bidding (se also our comments on the Share Prosperity Fund). We also believe that the seven-year plus life of the current ESIF programme provides for good investment planning.

1.19 ESIF monies however come with a wide range of constraints, regulations and a cumbersome set of administrative processes. We welcome the opportunity via the Shared Prosperity Fund to develop a new regional growth support system that is better fit for purpose (see comments below). The particular challenges of using ESIF to support economic development in Cumbria (which also apply in other parts of the country) include:

[5] Note: the current value of these funding pots is higher than in 2015 due to the depreciation of the pound. For instance the current value of our ERDF allocation is estimated at around £50 million

1) The restrictions on the types of **sectors and business** that can be supported via different funds (in the case of Cumbria the exclusion of nuclear, retail and agricultural

2) The complete **exclusion** of any activity linked to **housing** or what we would call "**place making**" activity - the enhanced delivery of housing and improvement of our places to attract people to offset downwards trends in our working age population is a critical part of our LIS.

3) The allocation of funding into very **specific pots of money** (our £44 to £50 million ERDF allocation is spread across 6 different pots with practically no flexibility in how we can move money between pots)

4) The **minimum size of ERDF funding applications**, which has acted as a barrier to businesses accessing the funding, as eligible businesses (SME definition) frequently cannot access the funding required to apply.

5) The requirements for certain **minimum rates of match funding** can be a serious stumbling block to the delivery of projects, especially in the current financial climate and limited local authority resources outside of their statutory functions.

6) The near impossibility of funding a project from **different EU funds** – this has been a challenge for many years but in spite of the best intentions remains the case.

7) There is a strong focus on delivering **contracted outcomes and results** (which is not unique to ESIF) however this can lead to distortions in behaviours and those funded playing the system to focus on the delivery of outputs rather than outcomes.

8) The administration of all the ESIF funds is very **cumbersome** (for instance in stark contrast to Local Growth Fund). This is both for applicants and those drawing down funds and delivering projects. The system is, as we know form working with applications, very off-putting for all but those with expertise in access ESIF funding (even here specialist expertise of the systems is required for the different funds which all operate completely differently). This is a mixture of the EU regulations as well as the different administrative capabilities and systems of the three departments who lead in the management of the fund (MHCLG, DfE and Defra). If you were to design a system designed to be an efficient and effective way of investing money to support regional development you would not start with the ESIF approach.

Will new Government measures, such as the Stronger Towns Fund and Shared Prosperity Fund, provide effective support for growth in these areas?

1.20 Notwithstanding the problems and challenges we outlined above in respect of ESIF as a means to support regional development, it has provided a vital tool for capital and revenue investment in the development of the Cumbrian economy. The **Shared Prosperity Fund** (SPF) has the potential to take on the best aspects of ESIF, but to be re-designed to more fit for purpose.

1.21 CLEP and our partners are extremely interested to find out what are the proposed parameters of SFP in terms of:

- How much resource will become available?

- How it will be allocated by geography and by themes/types of activity?
- What will be the targetry framework – for example how will outcomes better recognise productivity, as increased job outputs do not necessarily sit well with improved productivity?
- How it will be administered (in accessing funding, reporting and drawing down payments)?

1.22 CLEP and its partners would very much welcome the opportunity to support BEIS and other government departments on developing the thinking on SPF and ensuring that this captures the best of previous programmes (longer-term funding horizon, evidential approach, local devolution, evaluator approach) and removes the worst as outlined in Para 1.19. We recognise that the fluid state of play in Brexit negotiations presents a challenge, but feel that it is important that development work continues to ensure that a really effective programme is developed. SFP presents a major opportunity to really re-think holistically how to support regional development. CLEP's own experience over the last 5 years, that of its staff and its partners point toward several key areas where we sincerely hope the Shared Prosperity Fund can learn from past good and bad practice:

1) Be **flexible** as between capital and revenue funding

2) Provide **funding allocations** (they might be indicative or firm) for individual LEP areas and for at least 5 years

3) Avoid the need for **excessive bidding** in any grant allocation process (this is very time consuming and does not necessarily improve outcomes

4) Have a **clear formula** to allocate funding **based on need** (we suggest productivity levels and average wage levels could be the factors used). The formula should lead to little or no SPF resources going to London and the South East for instance.

5) Do not have an unrealistic fixed and largely **constant annual funding profile**, but recognise it needs to build up over time

6) Ensure the **minimum restrictions on access to funds by sector** or parts of the economy (it should be for each local area to determine sectoral priorities). Although we recognise the importance of limiting the access of larger businesses to any funding.

7) Ensure that the Fund has suitable scope and strands so that **rural** economic development can be properly funded

8) Have a programme that is based on delivering **outcomes** not the easily measurable activities or outputs – for instance jobs created or safeguarded is no longer a particularly relevant or indeed useful measure (here in Cumbria we do not particularly need to create more jobs as we have too few workers, rather we need to up the quality of our jobs and the access to higher quality jobs).

1.23 Cumbria LEP welcomed the announcement of the Stronger Towns Fund (STF). In part because it recognised that there has been excessive focus on supporting investment and growth in our larger cities in England. We note that £281 million has been allocated to the North West (or £40 million per year over the seven years 2019 to 2026 in which it will operate) with a further £600 million available nationally across England via a bidding process.

1.24 We are pleased that the fund is:

- Available for spend over 7 years as we consider that longevity and permanence are good features of support for regional and local development.
- We also consider that the apparent flexibility on what it can be spent is to be welcomed (although the fund was announced in March 2019 there is still as yet not guidance or detail)

1.25 However, we have concerns about the process and thinking behind the fund:

- First, it demonstrates a **missed opportunity** to have more joined up government thinking as the STF could have been linked to the Shared Prosperity Fund.
- Second, the principle of **lots of separate funds** (e.g. the Future High Street Fund as well as the STF) may work well in term of the news agenda for government but creates extra costs for local areas in responding – especially if bidding is involved. Also a series of separate national funds in effect drive national priorities on what should be done, rather than allowing local priorities to emerge in a joined up way. The existence of different funds over different time periods with different criteria also in some respect continues the problems created by roles of the separate EU funds in ESF, making it much harder to adopt a joined up approach locally.

1.26 In summary we consider that although the Government started off with a sensible approach to the Shared Prosperity Fund - taking time to develop it and positioning it as **the** fund for local and regional economic development, this good work could potentially be undone by rather ad hoc announcement of new funds. Although any money for economic development in Cumbria is welcome we would prefer:

- Greater **stability** in understanding the resources available and greater permanence in funding allocations
- A preference for resources coming from **one regime** (SPF) than many different pots
- A strong preference to have **less bidding** required (much of which is abortive and in any case it can lead to inflation of promises and forecasts of outputs and impact).

1.27 In addition all of our points about the specific parameters of the SPF set out above apply.

How does the mobility of businesses to relocate within the UK and overseas affect their investment in local areas? Should local and national Government be seeking to reduce business relocation?

1.28 We are not sure what lies behind this question. However, CLEP would not support any measure to restrict or reduce business relocation within the UK. Rather it is important that the UK and in particular areas such as Cumbria are able to remain attractive to businesses.

1.29 Post Brexit the UK will need to ensure that it is able to offer a competitive location in terms of infrastructure, skills and regulation/taxes. We are aware of several businesses in Cumbria who have considered or are actively considering opening up operations to ensure continued access to the Single Market (by having business subsidiaries domiciled within the EU). It is important that that we are able to provide a competitive and compelling offer so that what might be small outposts do not become the new business headquarters or major centres of operation outside of the UK.

Is the Government prioritising the right areas for early Local Industrial Strategies? Will the Strategies enable areas to tackle productivity and growth disparities within regions?

Is the Government prioritising the right areas for early Local Industrial Strategies?

1.30 We have not been able to discern any particular logic in the government's choice of the Wave 1 and then the Wave 2 of LEPs[6]. Cumbria LEP sought to be a Wave 2 LIS area. Although we were not announced as a Wave 2 area we have got on anyway in the development of our LIS. There is danger that the choice of which Wave an area is in sends out a message about the relative priority that is accorded by government to different areas.

1.31 There is also a danger that the learning in particular from Wave 1 is focussed on LEPs that have much larger economies and resources for research than smaller LEP areas such as Cumbria. Indeed, the developing guidance has been based on the trailblazer agglomeration geographies.

Will the Strategies enable areas to tackle productivity and growth disparities within regions?

1.32 We are confident that the **implementation** of our LIS would lead to demonstrable improvements in our economic performance and in better convergence in economic outcomes in our area (what we call "inclusive growth").

1.33 However, we need to be realistic. A strategy on its own will have limited traction. There is need for suitable resources to put it into practice. LEP will work with partners to see how far we can:

- Make better use of **existing public sector resources** that are available and used across the county.
- Use of the **underused assets** such as our retired population and people engaged in social and community activity (for instance in mentoring) and by connecting better existing businesses and people.

[6] Wave 1 - The first three trailblazer local industrial strategies were: Greater Manchester, West Midlands (Greater Birmingham & Solihull, Coventry & Warwickshire and Black Country) and the Cambridge-Milton Keynes-Oxford Corridor (Oxfordshire, Cambridgeshire & Peterborough, Buckinghamshire Thames Valley and South East Midlands).

Wave 2 - The second wave of six local industrial strategies were: Cheshire & Warrington, Heart of the South West, Leicester & Leicestershire, North East, Tees Valley and West of England.

- Ensuring that public bodies and, particularly, businesses make better use of **existing national and other funding sources** whether from organisations such as Innovate UK or the British Business Bank.
- Levering more value from **major private sector investment and spend** – such as the supply chain spend associated with nuclear decommissioning work at Sellafield or the submarine building programme in Barrow.

1.34 In reality the level of resources for economic and regional development has fallen dramatically over the last decade in England and in Cumbria. It is difficult to measure precisely the change. In the year ended March 2010 the then North West Regional Development Agency had a programme expenditure budget of some £530 million including ERDF) or around £76 per head of population across the North West (we do not have data on spend in Cumbria) and a staff budget of some £40 million.

1.35 Whilst the ability of our public sector local authority partners to fund the revenue aspects of economic development in particular have reduced significantly (especially as in real term income has fallen and has to be concentrated on core statutory services).

1.36 Cumbria has a £12 billion economy. As noted earlier our current ESIF allocation amount to about just £12 million per annum or £25 per head. The other resources at the LEPs disposal at present are primarily Local Growth Funding. This is £60 million funding allocated for capital spend over 5 years or around a further £12 million per year. Together the annual ESIF and LGF average allocation/spend amounts to around 0.1% of our total GVA.

1.37 We recognise that we need to spend any money wisely and that it should be focussed on where the greatest different can be had locally. But it is important to be realistic about the differences that can be made by this level of resource. We hope that the SPF will have a significantly higher level of resource than at present.

2. Appendix A: The CLEP Local Industrial Strategy

2.1 CLEP submitted our LIS for discussion and negotiation with central government at the end of March 2019. We have started our dialogue with different central government departments about our priorities and series of policy asks. We identified 9 strategic imperatives that need to be addressed:

- 1) Patchy and underperforming levels of productivity with significant productivity gaps on all measures caused by our sectoral mix and often lower than average rates of productivity within sectors.
- 2) Declining working age population – the slowest growing population of any LEP area, with a projection of a significant reduction in the workforce over the next 10 years.
- 3) Thin pool of higher level skills – a small number of highly qualified residents spread across a large geographical area.
- 4) An innovation 'gap' and weak ecosystem – we have world leading innovation in many firms and sectors yet there is an innovation "deficit" across the wider economy and a patchy innovation ecosystem.
- 5) Low rate of business start-ups and enterprise – a start-up rate less than two thirds of the England average, yet performs well on other enterprise measures.
- 6) Few faster growing firms – in both absolute and relative terms fewer businesses that grow faster.
- 7) Serious cold spots of worklessness and deprivation – high levels of employment, low unemployment and average wages are almost at the national level. However, higher than national levels of workless families and deprivation in a number of locations, predominantly the West Coast, Barrow and some areas of Carlisle.
- 8) Over-dependent parts of our economy: several of our areas are heavily dependent on one or two sectors and in some instances one major employer.
- 9) Infrastructure connectivity challenge – better connectivity in a physical and digital sense is needed to meet the needs of our dispersed population, labour force and economy and provide better access to markets.

2.2 The LIS has been framed around the five drivers of productivity and the four grand challenges, but has also outlined five strategic objectives which are:

- **Strategic Objective 1: Growing and using our talent pool**. In response to Cumbria's demographic challenge and thin pool of higher level skills mean we need to expand the numbers and skills of our workforce by a combination of greater in-migration and better used of home grown and local talent.
- **Strategic Objective 2: Capitalising on our productivity, innovation and enterprise potential**. We have patchy productivity, innovation activity, low rates of business start-up and the modest numbers of faster growing businesses, there are considerable opportunities to improve on all of these.

- **Strategic Objective 3: Exploiting underdeveloped economic opportunities** to help get a better balanced economy (across our different geographies and sectors, whilst holding onto our key specialisations).
- **Strategic Objective 4: Ensuring that all of our residents contribute** by sharing prosperity and opportunity. There are compelling economic reasons for better engaging and using the potential of all our people – the tight and declining workforce. We recognise the need for a fair economy and to ensure the numbers who are 'left behind' are reduced.
- **Strategic Objective 5: Improving connectivity** across the county (both physical and digital connectivity).

2.3 Initial work on target setting for the LIS has identified two overall targets for the 10 year LIS: to **improve overall productivity levels**; and to **retain and increase the number of working age** in the county.

2.4 Our vision for the next 10 years, building on our strengths, was:

> ***The place to live, work, visit and invest sustainably - where exceptional industry and innovation meets a breathtakingly beautiful and productive landscape.***

UK Shared Prosperity Fund

Questionnaire for Local Enterprise Partnerships

1a) Overview: What is your current level of involvement in the delivery of the Local Growth Fund and European Structural Investment Funds?
1b) How are you resourced to carry out these functions? Please outline the personnel involved in delivery, and whether these are based with the LEP, Accountable Body (if applicable) or a contracted service.

1a) Thames Valley Berkshire LEP (TVBLEP) has an allocation of £142m LGF and £26m ESIF.

Our involvement is set out in the recently ratified Assurance Framework (AF 4.0), which outlines the decision-making process:

i. staff (provide impartial, evidence-based advice to inform decision throughout the process, including Due Diligence) →
ii. programme group (shortlists for independent assessment (IA)) →
iii. programme group (recommends decision based on outcome of IA) →
iv. Board (makes decision) →
v. Forum (scrutinises/calls-in decision).

For transport infrastructure projects, the Berkshire Local Transport Body (BLTB) has been designated as the competent body to prioritise, invest in and oversee transport capital schemes on behalf of the LEP. DfT retains responsibility for the approval process of schemes in excess of £20m LGF; TVB LEP has one such scheme, with a budget of £24m, which means the BLTB is a programme group overseeing £118m of LGF on behalf of the LEP Board.

Once a project receives financial approval, the delivery body is responsible for providing regular reporting to the LEP staff lead and Programme Management Office (PMO). This is reviewed and progress for all LGF projects that have started on site are reported to the LEP Board on a monthly basis. Progress of all projects are also reviewed by programme groups.

As part of the EU Operational Programme, an autonomous TVB ESIF Sub Committee was established in 2014, based initially on the membership of the LEP Forum. Its terms of reference were set by government. TVB LEP is a member of committee and is therefore involved in shaping the calls for ESIF projects. Once funding has been awarded by the managing authority, the LEP monitors progress of the projects in order to ensure that the objectives within the ESIF strategy are being met.

1b) TVB LEP consists of 14 FTE members of staff. It is a private company, having incorporated in 2011. The LEP's projects are grouped under three programmes, each overseen by a staff lead and programme group. Together they ensure that investments meet strategic objectives. In addition, there is a small PMO (1.85 FTE), who work with the staff leads, external delivery bodies and the Accountable Body to ensure project management complies with AF 4.0.

TVB LEP contracts Hatch Regeneris to provide an expert and independent assessment of project business cases and subsequent post completion evaluations.

Of those with direct responsibility for LGF and ESIF, there is one Programmes Manager, one staff lead (Head of Infrastructure) and one contracted staff (ESIF lead). We have recently used the 2018/19 additional funds to employ a freelance ESIF expert who is offering bespoke Technical Assistance to potential ESIF applicants.

The Section 151 Officer at the LEP Accountable Body oversees the ongoing proper administration of the LEP's financial affairs and is thus involved in the distribution of LGF.

2) Local approach: What evidence and experience is there to demonstrate that locally delivered funding achieves better outcomes than nationally delivered funding programmes?

Our experience suggests that locally delivered funding better enables us to tailor activity to meet our strategic objectives, rather than trying to fit square pegs into round holes in order to secure funding. National outputs may not always be relevant locally, and it is important that the local area can define its needs. The future Berkshire Local Industrial Strategy (BLIS) gives a good opportunity to identify local need, particularly with a focus on inclusive growth.

The circle to square with ESIF is that national outputs can be too prescriptive. They may also be linked to national priorities that may not be wholly relevant in local areas, or miss local priorities that are not a national theme.

Opportunities are then missed to make real impact. Ideally, government should identify national themes, but these should be then defined locally for specific needs. For example, a national theme output could be 'participation in level 4 qualifications'; the local decision could be to offer full or part time courses, and in skills required locally. It should be possible for example to adjust and say, 'in these skills only level 2 is needed'.

An example of the challenges with national target setting is the Berkshire 'Elevate Me' project. The first phase of the programme was funded through the a 'City Deal'. Targets and eligibility criteria were set locally. The second phase was funded by the ESF and demanded adherence to nationally set eligibility criteria. This limited the pool of young people the project was able to support. For example, young people who were at risk of becoming NEET but who had a part-time job (which could have just been 5hrs a week) were not eligible for funding. This frustrated delivery partners and potentially limited the impact of the programme. More detail will be provided in the evaluation report, which should be available by the end of July.

By contrast, the LEP has recently invested £3.1m of LGF into five local skills projects. These were selected from a long list of 11 EoIs against the LEP's prospectus and Skills Priority Statement. The pre-work to ensure the investment of LGF meets local needs included 1:1 'surgeries' with applicants to ensure that bidders understood the LEP and area's needs. This preceded an independent assessment to test VfM, etc. The whole process took less than six months from the prospectus being issued.

3) Local delivery: In your view, is there opportunity for the LEP to expand its delivery responsibilities through the UKSPF? What support and time would you require to increase your capacity and capability?

TVB LEP's portfolio of capital investments is in excess of over 50 discrete projects, all in varying stages of completeness. In 2018, the BLTB asked the LEP to invest £25m (and then a further £11m) of retained business rates. Having established an effective process, the LEP was able to mobilise quickly, resulting in five new capital projects being funded. In addition, when funding for one large LGF project was withdrawn, the LEP responded by bringing seven new projects on board.

This clear and effective governance allows us to set priorities within a prescribed envelope that can complement national priorities, whilst tailoring for the needs of our area. In 2018 we had the opportunity to bid for an additional £200k capacity funding. This was particularly welcome as it allowed us to invest in new resources to strengthen our team by purchasing software to enhance our processes.

However, as a small but agile team, resources are always tight so we would need to expand our PMO by 50% if the UK SPF is to combine the responsibilities and demands of LGF and ESIF.

4) **Accountable Body** What support and resource is currently provided by your Accountable Body? How is this agreed? For example, through a Service Level Agreement or a Memorandum of Understanding.

The support and resource provided by the Accountable Body is set out in Section 7 of AF 4.0, here: http://www.thamesvalleyberkshire.co.uk/governanceandtransparency, rather than through an SLA or MOU:

The AB nominates its Section 151 Officer (S.151 Officer) to work with the LEP. It has a scheme of delegation but recognises that the S.151 Officer is accountable for ensuring the LEP meets the five Chartered Institute of Public Finance & Accountancy (CIPFA) principles of good and proportionate financial governance. In this regard, the S.151 Officer:

i. occupies a quasi-corporate position in the LEP and in assuring its compliance with this Framework;
ii. is formally mandated by the LEP to fulfil this role;
iii. is committed to embedding good governance in LEP decision making;
iv. plays an active role in ensuring the effective and regular review of LEP governance; and
v. being a CIPFA-qualified accountant and Head of Finance at the AB, has the necessary skills and appropriate resources to fulfil this role.

5) **Single Fund** Are there opportunities afforded through a single fund approach? Are there example of where restrictions between funds have limited project impacts?

The main opportunity of a single fund approach is for the government to make clear its policy objectives at the highest level and for any conditions of the fund to be equally clear from the outset.

A single fund provides the opportunity to engage a wider range of partners but the focus can too often be on the cure not prevention, e.g. ESF rules often means that the focus has to be on a specific age group whereas all the evidence is that to have significant impact (on STEAM activity) the focus must start at primary school age.

There can be some duplication with different partners targeting the same customer group. In Buckinghamshire, Adviza delivers a number of services (National Careers Service, BBO and a well-being project), which means it is possible to refer between schemes and much easier to create referral pathways. This is less likely with external organisation. Smaller individual projects would have more of a challenge.

TVB LEP has overcome this challenge by creating programme 'delivery' groups to enable delivery partners to liaise, cross-reference and avoid duplication.

6) Lessons Learned: What lessons have been learned through your experience of fund delivery that could be applied to the UK Shared Prosperity Fund?

Project administration is the same for an area with a small allocation, such as Thames Valley Berkshire, as for one with a much larger allocation of ESIF. This has undoubtedly deterred potential applicants willing to respond to future calls as the level of bureaucracy is too much:

- The length of time for the commissioner to procure the project should be shortened to allow sufficient time for the project to operate. (18-months in not sufficient)
- Compliance requires a dedicated resource, which some smaller organisations do not have, making them unable to deliver the project and meet the compliance need. The financial risk is too great for many smaller organisations, but these can be doing excellent work with the clients. Local charities know their communities very well, for example.
- Simplified administration would be helpful, particularly regarding compliance. Reporting numerical outputs and rigorous monitoring meetings are fine but providing detailed audit evidence is difficult. Organisations spend a significant length of time maintaining records and the level of data is onerous. For example evidence required may be an employer signed document, which often needs to be collected retrospectively; the need for a full versus a short birth certificate or original / true copies of documents is a challenge and can result in activity not being recorded and a subsequent loss of funding for the delivery partner. One project required evidence of action plans between learner and provider that had to be signed and dated to count; this final step did often not occur resulting in compliance difficulties. Evidence of eligibility is also a challenge, e.g. authenticated residence status; ESIF does not just require evidence of the output but also of the process.
- Organisations are paid on output, requiring them to embark on the project at risk. Delayed payment may affect their ability and capacity to start at the right pace.

It would be welcome if a new fund had a balance of capital and revenue funding. The collaborative, partnership aspect of ESIF should be retained and involve local partners. This helps to builds the local capacity and involves smaller organisations.

Housing, Communities and Local Government Committee

House of Commons, London SW1A 0AA

Tel 020 7219 4972 Email hclgcom@parliament.uk Website www.parliament.uk

David Rees AM
Chair, External Affairs and Additional Legislation Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

13 May 2019

Dear David,

Thank you for your letter of 2 May regarding the anticipated UK Shared Prosperity Fund (SPF). As you may be aware, the Committee considered the SPF in its recent inquiry on Brexit and local government; our report was published on 3 April and we hope to receive the Government's response before the summer. I also exchanged various correspondence on the matter with the Secretary of State for Housing, Communities and Local Government.

We share your view of the importance of the SPF and have found it regrettable that the Government's consultation on the fund has not been forthcoming despite promises that a consultation would take place in 2018. The creation of the SPF presents an opportunity to better design the administration and distribution of such funding. However, it also presents a serious risk for local economies if the succession from EU structural funds to the SPF is handled in an untimely way or does not meet the needs of people and communities across the UK.

In our recent report, we called on the Government to "urgently advance its plans for the establishment of the UK Shared Prosperity Fund and publish the promised consultation on its design and administration". We also made the following recommendations on how the SPF is administered and allocated:

- Funding levels must match or exceed the equivalent levels of EU funding which is currently provided to local government.
- There cannot be a one size fits all approach and funding must be allocated on the basis of local need, including taking account of what individual areas currently receive from EU structural funds as well as what they would have been entitled to in the next EU funding period if the UK had remained a member.
- The funding made available in the UK Shared Prosperity Fund must also be additional to the new funding already provided by the Stronger Towns Fund.

Upon the publication of the consultation, we are likely to revisit the issue to ensure our recommendations have been taken into account. We welcome your work on the matter and look forward to receiving information on any further action you choose to take.

Yours
Clive.

Clive Betts MP
Chair, Housing,Communities and Local Government Committee

Stephen Kinnock MP
London
SW1A 0AA

David Rees AM
National Assembly for Wales
Cardiff Bay
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3 June 2019

Proposals for a Shared Prosperity Fund

Dear David,

I am grateful for your letter dated 2 May and welcome the opportunity to respond to the Committee's questions regarding the proposed UK Shared Prosperity Fund.

The timely replacement of European Union structural funds is a pressing priority for Wales and indeed the rest of the UK. The All-Party Parliamentary Group on Post-Brexit Funding for Nations, Regions and Local Areas, which I am proud to be the Chair of, is actively engaged in developing ideas and finding a consensus over the design of the Fund. In 2018, the APPG initiated an inquiry to seek the views of stakeholders on how it should take shape and be delivered. The inquiry received 80 submissions from a wide range of organisations from all parts of the UK. My responses the Committee's questions will draw heavily on the recommendations made by the APPG following its inquiry.

What are the principles that should underpin the new UK Shared Prosperity Fund?

As the Committee will be well aware of, EU structural funds in their present form – principally the European Social Fund and European Regional Development Fund – are heavily targeted at less prosperous places and aim to support regeneration and economic development. These very broad principals should be mirrored in the new Fund. To expand on these principals in slightly more detail:

- **It is welcome that the UK government's intention for the Fund is to narrow differences in prosperity across the UK.**

- **The budget for the Fund should be at least not a penny less than it is at present. This means an annual budget line of at least £1.5bn a year for the whole of the UK.** Given the recent downward shifts in the prosperity of some parts of the UK and widening regional inequalities, the overall annual budget will probably need to be higher – further still if other funding streams are to be rolled in – to match the scale of the challenge.

- The Fund should be heavily skewed towards less prosperous areas. **The places which need the most support should receive the largest allocations.**

- The rules and processes underpinning EU structural funds in their present form are complex and overly bureaucratic. **The administration of the Fund should be structured to provide more effective and flexible support, with a greater say for local authorities in key decisions.**

- **It is vitally important that the Fund respects the devolution settlement.** I will expand on this point in my response to a subsequent question.

How should funding allocations be made as part of any future fund?

At present, sub-regions of the EU are divided into three types of region – less developed, transition and more developed – for the purpose of allocating EU structural funds between areas. In the main, this approach has provided the largest funding allocations to the least prosperous areas. For example, West Wales and the Valleys, a 'less developed' region, was allocated €2bn for the 2014-2020 period. A sharp departure from the present balance of allocations would be unjustifiable.

- **The allocations to the nations in absolute terms should be rolled over, at least initially. To avoid unnecessary complications, funding should be provided outside of the Barnett formula.**

Post-Brexit, however, it does not make much sense to simply replicate the current method for deciding allocations between sub-regions. There is an opportunity to develop a new needs-based formula to determine allocations at this level.

- **The method for allocating funding between sub-regions should be given careful consideration by the respective devolved administration**. The administrations should engage with a range of partners to decide an allocation formula best suited to local needs.

The separation of the social and regional development aspects of EU structural funds reflects the EU's long-standing approach to financing regeneration policy. This distinction does not need to be maintained in the new Fund.

- **Requirements to fund specific activities should be kept to a minimum, while local partners should be expected to maintain a balanced portfolio of programmes and projects.**

Economic development is not a quick process. Local practitioners need long timescales to plan and deliver regeneration programmes. Short-term funding cycles are largely counter-productive to regeneration, as they prevent areas from taking a long-term and strategic view of how to address local challenges.

- **Funding should be provided on the basis of multi-annual allocations.** It would not be unreasonable to replicate the current length of spending rounds, which follow seven-year cycles and allow partners to draw down unspent funds for up to three years after this period. A longer period could be considered.

Many contributors to the APPG's inquiry cautioned against the adoption of a competitive allocation process. Competitive bidding processes are time consuming, resource intensive and do not always ensure funding goes to the places which need it the most.

- **If any element of competitive bidding were to be incorporated into the Fund it should be marginal to the main formula-based allocation.**

How should any future fund operate to take account of the different devolved settlements across the United Kingdom?

The issue of how far the Fund is devolved has rightly provoked a significant amount of discussion. I welcome the fact that I and other Officers of the APPG, who represent areas in England, Scotland and Wales, were able to find a consensus over a set of recommendations which respect the UK's devolution settlement.

At present, the UK government agrees an over-arching plan with the European Commission which sets out how the structural funds will be delivered. This stage of the process will no longer be necessary post-Brexit, with the UK government stepping in as the source of the funds.

- Over and above its role as the source of initial funding, **the UK government should set only very broad and strategic guidelines for the new Fund**. Any guidelines should be developed in partnership with the devolved administrations.

Economic development and regeneration policy is largely a devolved matter. There is a strong logic to devolving the national allocations of the Fund to the devolved administrations, to ensure a joining up of policy and other funding streams.

- **The UK government should transfer responsibility for the detailed design and delivery of the relevant parts of the Fund to the devolved administrations and their partners.**

- **The Fund should be re-branded to reflect the four nations, i.e. UKSPF England, UKSPF Scotland, UKSPF Wales and UKSPF Northern Ireland.**

Local authorities and their partners know their local communities best and are in many cases the delivery agents of regeneration initiatives. They have a key role in providing intelligence to ensure the Fund is effective on the ground.

- **The management structures for the Fund should make greater efforts to engage local authorities.**

- **Local partners should be given flexibility to define the types of projects which can be supported by the Fund, so long as the activities remain consistent with the wider objectives of the Fund**

Are there any other issues in relation to replacing ESIF funding after Brexit that you would like to bring to our attention?

As I am sure you will agree, the most pressing issue at the present juncture is the absence of the UK government's long overdue consultation on the Fund. Local areas are being kept in the dark about what will happen to one of their major funding streams post-Brexit, which is causing uncertainty.

- **The UK government should publish the consultation on the Fund as soon as possible.** This will be crucial to ensuring the new Fund is operational by the time EU structural funds in the UK have been wound down.

In March 2019 the UK government announced the Stronger Towns Fund. The Secretary of State for Housing, Communities and Local Government, James Brokenshire MP, stated four times at the dispatch box[1] that additional funding would flow to Wales from the Stronger Towns Fund. I am alert to the possibility that the funding for the Stronger Towns Fund could be 'docked off' Wales' share of the Shared Prosperity Fund, which would be unacceptable.

- **Any UK government funding allocation for Wales from the Stronger Towns Fund should be in addition to Wales' share of the UK Shared Prosperity Fund.**

I welcome the Committee's interest in the proposed Fund and will be interested to hear what its next steps on this subject will be. If I or the Officers of the APPG can further assist your inquiry, please do not hesitate to contact me or them. You have my consent to publish this letter.

Kind regards,

Stephen Kinnock
MP for Aberavon
Chair, Post-Brexit Funding for Nations, Regions and Local Areas

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[1] https://hansard.parliament.uk/commons/2019-03-04/debates/B9137B37-AC0F-411E-A7C8-FA3C385C8739/StrongerTownsFund

All-Party Parliamentary Group

Post-Brexit Funding for Nations, Regions and Local Areas

Report of an initial inquiry into the UK SHARED PROSPERITY FUND

November 2018

UK SHARED PROSPERITY FUND
An initial report

APPG on Post-Brexit funding

The All-Party Parliamentary Group (APPG) on Post-Brexit Funding for Nations, Regions and Local Areas was established in Westminster in June 2018. Its Chair is Stephen Kinnock MP (Lab) and its Vice-Chairs are Bill Grant MP (Con), Chris Stephens MP (SNP), Jo Platt MP (Lab) and Anna McMorrin MP (Lab).

The aim of the group is to help shape plans for the UK funding that is intended to replace the EU funding for national, regional and local economic development that will disappear following Brexit.

At its inaugural meeting the Group initiated an Inquiry to assess the views of stakeholders in the parts of the UK that currently benefit substantially from EU funding. The aim was to produce a report that could be fed into government at an early stage to try to influence the UK government's proposals, which are expected to be set out in a consultation towards the end of the year.

Background

In recent years the EU has been the biggest single financial contributor to regional and local economic development across the UK. In the present EU spending round (2014-20) the UK receives £9bn from the EU Structural Funds, or around £1.3bn a year[1].

The EU funds are predominantly targeted at less prosperous areas. Most parts of the North, Midlands, Scotland, Wales and Northern Ireland presently benefit massively from the EU funds. This is at risk. Local authorities and the devolved administrations are already agitated about the possible outcomes.

Assuming Brexit goes ahead, the UK will eventually stop receiving EU funding to support regional and local economic development. Under the 'divorce bill' deal agreed in December 2017, the UK will continue to draw on EU funds as normal up to the end of 2020, even though Brexit itself is expected in March 2019. In July 2018, in a written statement to Parliament, the government added that in the event of a 'no-deal' Brexit the Treasury will underwrite all the funding that would have come to the UK in the present 2014-20 EU spending round.

[1] Figures here are for the sum of the European Regional Development Fund (ERDF) and the European Social Fund (ESF).

There is therefore no immediate threat to EU-funded programmes but after the end of 2020 there will presently be no new money.

The Conservative manifesto for the 2017 general election promised to set up a new *UK Shared Prosperity Fund* to replace the EU funds. The intention is that the new Fund will "reduce inequalities between communities across our four nations" and that the Fund will be "cheap to administer, low in bureaucracy and targeted where it is needed most".

A written statement to Parliament from Secretary of State James Brokenshire MP, on 24 July 2018, confirmed the commitment to the new Fund but added little detail. Nearly everything about the Fund is still to be worked out leaving huge unresolved issues:

- How much funding will be available?
- How will it be divided up across the country?
- What activities will be eligible for support?
- Who will take the decisions about how the money is spent?

The replacement for the EU funds is entirely a domestic UK matter. It does not depend on negotiations with Brussels. Nor does replacing EU funds necessarily require 'new money'. In theory there is more than enough available to pay for the Shared Prosperity Fund from the funds that will no longer be paid over to the EU, though there are of course competing claims on this pot.

The present Inquiry

Following the formation of the APPG in June, we wrote to a wide range of stakeholders inviting written submissions. We particularly targeted the parts of the UK that currently benefit substantially from EU funding but also invited submissions from national bodies and thinks tanks with a wider remit.

The APPG has received 80 submissions from an exceptionally wide range of organisations and locations, including a large number beyond our initial circulation list. A list of the organisations submitting evidence is included in the appendix. The list includes local authorities, Local Enterprise Partnerships, the TUC, Mayoral Combined Authorities, devolved administrations and others. Several of the submissions were made on behalf of large coalitions of partners, in the North East for example. The geographical spread includes responses from all four nations of the UK. We are immensely grateful to those who took the time to respond.

We are confident that the Inquiry has collated views from across the main players in EU funding for nations, regions and local areas and that we can therefore make recommendations to government from a well-informed standpoint.

The call for evidence asked 18 specific questions and the report is organised around the responses.

1. *What would be an appropriate annual budget for the new UK Shared Prosperity Fund?*

At present, the European Regional Development Fund (ERDF) and the European Social Fund (ESF) make a combined contribution to UK national, regional and local development of around £1.3bn a year. Looking ahead beyond 2020, and allowing for inflation, the UK Shared Prosperity Fund would need to be worth around £1.5bn a year to match this funding stream in real terms.

In recent years there has been little evidence of convergence in prosperity across the UK with the gaps in GVA per head – the most commonly used indicator of the strength of local economies – if anything tending to widen since the financial crisis. This is not because EU-funded regional policies have been failing: on the contrary, independent evaluations suggest that they have raised output and employment. There are deep-seated imbalances in the UK model of economic growth with London and parts of the South East tending to pull away from the rest of the country.

Just about all the contributors to the Inquiry therefore argued that the UK Shared Prosperity Fund should be worth, at a minimum, £1.5bn a year in order to match in real terms the present scale of ERDF and ESF funding.

Predicting exactly how much the UK would have received from these sources after 2020, if the UK had remained an EU member, is not possible at this stage because the EU budget for 2021-27 remains under negotiation.

However, many contributors noted that if the UK Shared Prosperity Fund also takes over other financial responsibilities – for example the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) – its budget would need to be proportionally larger. Additionally, if the UK Shared Prosperity Fund incorporates any existing UK funding streams there would need to be a further proportionate increase in its budget.

We recommend that the annual budget for the UK Shared Prosperity Fund is no less, in real terms, than the EU and UK funding streams it replaces.

2. *Should there be a multi-annual financial allocation, and if so why and for how long?*

At present, EU funding to the UK operates on a seven-year cycle, with seven-year financial allocations to different parts of the UK. The present cycle covers 2014-20 and, as noted earlier, has now been underwritten by the Treasury.

There is unanimity among the contributors to the Inquiry that the UK Shared Prosperity Fund should operate on the basis of multi-annual financial allocations. This is seen as allowing for the proper planning and implementation of projects, especially schemes of a more ambitious or transformational nature.

There is also strong support for the retention of seven-year financial allocations because they provide continuity and certainty, and for retention of the flexibility for spending on agreed projects to roll on for up to three years beyond the end of each programme period. Some would support ten-year allocations, though none less than five years.

We recognise that lengthy financial allocations of this kind do not fit neatly with UK Spending Reviews, which typically cover four or five years and can also be triggered by changes in government. We recognise, however, that in the context of regional and local economic development there is considerable merit in lengthier spending programmes.

We recommend that the UK Shared Prosperity Fund operates on the basis of multiannual financial allocations of the longest practicable duration.

3. *Would it be appropriate to roll in other budget lines (e.g. the Local Growth Fund in England) into the UK Shared Prosperity Fund?*

A range of funding streams from the UK government and the devolved administrations also contribute to regional and local development and sometimes act as the 'matching finance' for EU-funded projects. There has been discussion of the possibility of rolling in some of these other budget lines into the UK Shared Prosperity Fund.

Among the contributors to the Inquiry there is no unanimity on the issue of rolling in other budget lines. Some oppose this approach, seeing it as dilution of the new Fund's purpose, which is to replace EU monies. Others see some merit in the idea and the Local Growth Fund, which supports infrastructure investment in England, is seen as the most likely candidate. They see a single larger pot as easier to administer. The inclusion of budget lines intended for specific places (e.g. the Coastal Communities Fund) would nevertheless be opposed.

There is however a widely held fear that the inclusion of the Local Growth Fund (or any other existing budget line) within the UK Shared Prosperity Fund might lead to a reduction in the totality of funding. Additionally, there is recognition that to roll in other budget lines, such as the Local Growth Fund, would reduce the scope for finding matching finance for some projects so long as this continued to be required. These are legitimate worries.

We recommend that if other existing budget lines were to be included in the UK Shared Prosperity Fund the total budget of the new Fund should be increased by the full value of those additional budget lines, and that the present rules on matching finance for projects should be adjusted accordingly.

4. *How should the UK Shared Prosperity Fund be divided up between the four nations of the UK?*

5. *Would rolling forward the existing shares going to England, Scotland, Wales and Northern Ireland be a sensible way forward?*

These two questions are best taken together.

At present the scale of EU funding going to the each of the four nations reflects a mix of factors: the EU's allocation of regions into different categories, the allocation of funding within those categories, and the UK government's decision last time round to share the small percentage reduction in EU funding equally across the four nations.

Post-Brexit, there is of course no need to be tied to EU allocation procedures. There is therefore some support – in England it has to be said – for taking a fresh look at the data and allocating accordingly between the four nations.

This view is not shared by contributors to the Inquiry from Scotland, Wales and Northern Ireland. From these parts of the UK the strongly held view is that not just the share of the new Fund but also the absolute amounts (adjusted for inflation) should be no less than the present EU funding. The sensitivity on this point appears considerable.

There is support for this position in that the underlying economic geography of the UK has not changed radically in recent years. A new formula would therefore probably result in modest adjustments to the sums going to each of the four nations but probably keep no-one happy.

We recommend that, for the moment, the UK government adopts a pragmatic approach and rolls forward the four nations' existing shares of EU funding into the UK Shared Prosperity Fund.

6. *Should the allocations within the devolved nations be an entirely devolved matter?*

The present EU allocations to component parts of Scotland and Wales are to a large extent the result of EU decisions. West Wales & the Valleys, for example, receives especially large sums (around £1.8bn over the 2014-20 period) not because of decisions by the UK or Welsh Governments but because its low GDP per head qualifies it as a 'less developed' region under EU policies. Likewise, the Scottish Highlands & Islands receive additional funding because of EU policy on areas with a low population density.

Beyond Brexit there is no need for financial allocations to areas within the devolved nations (or indeed within England) to take account of EU priorities.

Even though the UK government's intention is to establish a UK Fund, there is no compelling reason why it should earmark parts of the pot for specific areas within the devolved nations. This view is endorsed by most, though not all, of the contributors to the Inquiry from the devolved nations.

We encourage the UK government to recognise that, within the framework of agreed guidelines, the allocation of the funding to local areas within the devolved nations should be a devolved matter.

7. *In England, should the funding to local areas be allocated by an appropriate formula, and if so what are the best statistical measures?*

In the 2014-20 EU funding round, each of England's 38 Local Enterprise Partnership (LEP) areas receives a fixed financial allocation, in euros, from the ERDF and ESF. The formula underpinning the present allocation is complex, bringing together EU allocations to its three categories of regions ('less developed', 'transition' and 'more developed'), the UK government's decision to favour less prosperous areas within the last two categories, and previous financial allocations.

The case for rolling forward these allocations is poor. There is no need to be bound by EU priorities, the relative prosperity of areas has shifted, the data driving the 2014-20 allocations is highly dated, and there was a serious error in the allocations to the Liverpool and Sheffield City Regions (they were badly short-changed) which neither has forgotten.

The contributors to the Inquiry strongly support a needs-based allocation formula in England. There are diverse views on exactly what that formula should be. That GVA per head should be a key part of the formula is accepted by most. Other suggestions include unemployment, employment rates, economic inactivity, median earnings, skills, the business stock and the Indices of Deprivation.

We recommend that the UK government deploys a robust formula, using up-to-date statistics, to allocate the UK Shared Prosperity Fund within England.

8. *Is there any role for competitive bidding between areas for funding?*

Within the present EU-funded programmes competitive bidding takes place between individual projects. In England, the Local Growth Fund has also been allocated between LEP areas by a competitive bidding process. The allocation of EU funds between areas, however, has always been formula-based.

Many of the contributors to the Inquiry were quite blunt on this point: they see no role for competitive bidding between areas for funding from the UK Shared Prosperity Fund. Competitive bidding is seen as hugely wasteful of time and resources, open to favouritism, and likely to deflect from a strong focus on raising the performance of the less prosperous parts of the country, not least because it is often easier to argue for ‘quick wins’ in the places where the economy is strongest. This assessment seems reasonable.

Among the minority who see merit in an element of competitive bidding it is still seen as something that should be marginal to the main, formula-driven basis of funding allocation, perhaps reserved for experimental measures or for initiatives that might only have relevance in a small number of places.

We recommend that if any element of competitive bidding were to be incorporated into the UK Shared Prosperity Fund it should be marginal to the main formula-based allocation.

9. *In England, should sub-regions (e.g. LEP areas, combined authorities) be the basis for financial allocations, as with EU funding at present?*

There is agreement among contributors to the Inquiry that in England sub-regions are the geographical unit to which financial allocations should be made. Local economies operate at this scale, generally spanning several local authorities but stopping short of standard statistical regions.

In practice, too, the economic diversity of England is especially marked at the sub-regional scale. Within several regions there are both prosperous and deprived sub-regions.

The contributors to the Inquiry have mixed views however on the merits of the present LEP geography. Where there is a combined authority and a LEP with the same boundaries, and where cooperation and administration has matured, greater confidence is expressed in this framework. Elsewhere, there seems to be greater unease. Some county councils, for example, clearly feel they should be more central to the administration of funding.

In July 2018 the UK government published its review of Local Enterprise Partnerships, intended to initiate adjustments to LEP boundaries and improvements to their administrative structures and accountability. If these reforms are implemented some of the concerns about LEPs may recede. In practice, however, if the intention in England is to allocate the UK Shared Prosperity Fund to sub-regions there presently seems little practical alternative to the use of LEP areas.

We recommend that sub-regions, most probably revised LEP areas, remain the basis for financial allocations to areas within England.

10. *As with present-day EU funding, should economic development and convergence remain the primary objectives of the new Fund?*

The Conservative manifesto defined the purpose of the UK Shared Prosperity Fund as being to "reduce inequalities between communities across our four nations". The ministerial statement in July 2018 re-affirmed this commitment to tackle these inequalities.

This focus on narrowing the differences in prosperity and well-being between places is endorsed by contributors to the Inquiry.

There is strong support for maintaining economic development at the heart of the objectives for the new Fund but there is also a view among contributors that 'inclusive growth' – making sure the benefits of a growing economy filter through to those most in need – has an important place in the Fund.

We support the government's intention to make narrowing the differences in prosperity across the UK the key objective of the new Fund.

11. *Are there activities beyond the scope of present-day EU funding that should be supported?*

Over the years the activities eligible for financial support from the EU have become more restrictive. Whereas at one time it was normal to use substantial ERDF funding to support infrastructure investment, in most of the country the focus in the present round has had to be on R&D, business support, the low-carbon economy and environmental improvement. There are also tight restrictions on financial aid to businesses.

The view of most contributors to the Inquiry is that the shopping list of activities on which EU funds can be spent has become too restrictive and that the creation of the UK Shared Prosperity Fund allows a fresh start. There is a widespread view too that local players know their area best and are best placed to judge exactly what is needed. This adds up to a powerful call for greater flexibility on spending.

Kent County Council made a special plea to help offset the expected costs of Brexit – their ports are in the front-line – and a number of players in Northern Ireland made the case for addressing the special needs of the border with the Republic of Ireland, including the loss of EU-funded Peace and Cross-Border initiatives. These seem in principle to be special cases, tied directly to the consequences of Brexit, that the UK government ought to address, though not necessarily through the UK Shared Prosperity Fund.

We recommend that local partners are given flexibility to define the types of projects on which the UK Shared Prosperity Fund is spent, so long as the activities remain consistent with the wider objectives of the Fund.

12. *Should there be guarantees that specific activities supported at present by EU funding (e.g. ESF support for training) will continue to receive funding?*

Most contributors to the Inquiry want to see local flexibility to determine local spending priorities, with little if any constraint, and therefore do not support the idea that specific funding should not be earmarked for specific purposes. In England, there is an expectation that the Local Industrial Strategies, intended to be in place in all areas by 2020, will set the framework within which local partners can then determine local spending priorities.

An exception applies to a number of organisations that make extensive use of European Social Fund (ESF) monies or act as representative bodies for these organisations. They have a worry that ESF-funded activities, which currently account for around 30 per cent of the combined ERDF/ESF spend across the country but substantially more in London, might be squeezed out. Some of these activities address the skills needs of the most marginalised in society. Whether a squeeze of this kind is ever likely to happen is unclear, especially as the emphasis of the UK government and devolved administrations on skills as a driver of productivity seems likely to figure in most plans. Nevertheless, the concern is real.

We recommend that requirements to fund specific activities should be kept to a minimum, but we would also expect the spending plans of local partners to be a balanced portfolio.

13. *As a UK fund, should the UK government set the broad guidelines for the priorities to be supported by the Shared Prosperity Fund?*

14. *What role should the devolved administrations play in setting the broad guidelines?*

These questions are best taken together.

The present arrangement for managing the EU Structural Funds is that the UK government draws up an over-arching plan in agreement with the European Commission.

This arrangement will not be required following Brexit but the assumption of nearly all contributors to the Inquiry is that the UK government will set broad guidelines for the new UK Shared Prosperity Fund. In effect, the UK will simply replace the EU as the source of funding. The primary concern of contributors is therefore that the guidelines are set in very general terms, allowing plenty of scope for local flexibility.

This view is not shared by the Welsh Government. Their view, supported by Wales TUC, is that there should not be a 'UK' fund. Rather, the EU funding that would have come to Wales should be replaced by an additional block grant from the Treasury which would then be for the Welsh Government and Welsh Assembly to manage as they see fit. Regional development is a devolved matter, the Welsh Government points out, and they would not wish to see EU rules replaced by UK rules.

The Welsh Local Government Association sees "no potential underlying conflict in the existence of broad UK-level guidelines and the ability of the devolved nations to determine the detail in partnership with their regional and local stakeholders".

The way forward proposed by the Welsh Government has a number of implications: the financial allocation would have to be outside the Barnett formula (otherwise, as a major recipient of EU funds, Wales would lose out); the allocation would have to be revised over time in the light of changing economic performance; and as a block grant Wales would be free to spend the money in whatever way it saw fit, not just on regional and local development.

This is not of course what the UK government is presently proposing, and in the absence of a submission we are unclear where the Scottish Government stands on this issue.

Nevertheless, there is clearly force and logic behind the idea that the devolved administrations should be free to manage their own regional development programmes. This would reflect both the spirit and the letter of the current devolution settlement.

Added to this, there are substantial administrative attractions in disentangling the four nations' components of the UK Shared Prosperity Fund if in England the objectives and financing were to be complicated by rolling in other Westminster budget lines.

We expect the UK government to respect the devolution settlement and therefore any guidelines for the Fund as a whole should be kept at a strategic broad level and agreed jointly between the UK government and the devolved administrations.

We also recommend that, within the framework of the agreed guidelines, the UK government should transfer responsibility for the detailed design and delivery of the relevant parts of the UK Shared Prosperity Fund to the devolved administrations and their partners.

We further recommend that, reflecting this devolved responsibility, the Fund should be re-branded to reflect the four nations, i.e. UKSPF England, UKSPF Scotland, UKSPF Wales and UKSPF Northern Ireland.

15. *How should the impact and desired outcomes of the Fund be defined and measured?*

At the present time, the administrative architecture of the EU funds places strong emphasis on identifiable project outputs.

The view of many contributors to the Inquiry is that the current emphasis on outputs needs to be tilted toward 'outcomes', for example to measuring the impact on key economic variables. There is also a view that defining the target outcomes should be primarily the responsibility of local partners, who are best placed to identify what these should be. Contributors argue strongly that a 'one size fit all' approach to the UK Shared Prosperity Fund would be wrong because needs and opportunities vary such a great deal across the country.

We recommend that there is a strong emphasis on allowing local partners to define and measure target outcomes.

16. *How can the promise that the Fund will be "cheap to administer, low in bureaucracy" best be delivered?*

EU funding is presently regarded as something of a bureaucratic nightmare, with so many hurdles to overcome. The Federation of Small Businesses, for example, reports that many firms are simply put off by the amount of paperwork. The urgent need to simplify administrative processes – and speed them up – is widely recognised by contributors to the Inquiry.

A number of contributors note that the removal of the EU from the jigsaw will, at a stroke, simplify matters. In particular, the EU has imposed meticulous auditing requirements that were designed to stop fraud in other EU states and are unnecessary in a UK context. But there is a view that simplification needs to go further and, in particular, government departments need to devolve more responsibility (and trust) to local players, especially where well-proven administrative structures are in place.

We recommend that the UK government and devolved administrations work with local players to seize the opportunity to design a simplified administrative structure that works.

17. *Where should local authorities fit into the management of the new Fund?*

There are varying perspectives among contributors to the Inquiry about the current role of local authorities in managing EU funding.

Broadly, in the parts of England where there are now combined authorities and LEPs with coterminous boundaries there appears to be a degree of comfort about the ability of local authorities to input into decision making, and a desire to maintain and strengthen these arrangements. Elsewhere there can be more unease. Some county councils, for example, feel their expertise and capability is marginalised, a view shared by London boroughs.

This is not just a problem in England: several local authority contributors from Scotland and Wales also express concern at the centralisation of EU programme management and at the need for stronger adaptation to local circumstances. Resolution on this point is clearly a devolved matter.

In England, the reform of LEPs announced in July 2018 should strengthen their competence but not necessarily their accountability to local authorities. Yet it is local authorities that are democratically accountable to local people.

We recommend that the management structures for the UK Shared Prosperity Fund make greater efforts to engage local authorities.

18. *How should programmes and projects be monitored and evaluated?*

There is a substantial body of experience in monitoring and evaluating EU-funded programmes and policies. One of the messages from contributors to the Inquiry is that the UK government and the devolved administrations should not seek to 're-invent the wheel'. There is a lot of existing good policy and practice on which to build.

Broadly, the view from contributors is that projects should provide basic key performance updates to managing bodies (for example to LEPs in England) that can then be compared against agreed targets. Evaluation should be at both project and programme level, and on-going.

There is also a view that the changeover to the new Fund can be used to place greater responsibility on local partners to set their own targets and milestones in the light of local circumstances.

We recommend that the monitoring and evaluation of programmes and projects aims to build on the experience with EU funding.

Summary list of recommendations

Overall budget

We recommend that the annual budget for the UK Shared Prosperity Fund is no less, in real terms, than the EU and UK funding streams it replaces.

We recommend that the UK Shared Prosperity Fund operates on the basis of multiannual financial allocations of the longest practicable duration.

We recommend that if other existing budget lines were to be included in the UK Shared Prosperity Fund the total budget of the new Fund should be increased by the full value of those additional budget lines, and that the present rules on matching finance for projects should be adjusted accordingly.

Allocation across the country

We recommend that, for the moment, the UK government adopts a pragmatic approach and rolls forward the four nations' existing shares of EU funding into the UK Shared Prosperity Fund.

We encourage the UK government to recognise that, within the framework of agreed guidelines, the allocation of the funding to local areas within the devolved nations should be a devolved matter.

We recommend that the UK government deploys a robust formula, using up-to-date statistics, to allocate the UK Shared Prosperity Fund within England.

We recommend that if any element of competitive bidding were to be incorporated into the UK Shared Prosperity Fund it should be marginal to the main formula-based allocation.

We recommend that sub-regions, most probably revised LEP areas, remain the basis for financial allocations to areas within England.

Activities to be supported

We support the government's intention to make narrowing the differences in prosperity across the UK the key objective of the new Fund.

We recommend that local partners are given flexibility to define the types of projects on which the UK Shared Prosperity Fund is spent, so long as the activities remain consistent with the wider objectives of the Fund.

We recommend that requirements to fund specific activities should be kept to a minimum, but we would also expect the spending plans of local partners to be a balanced portfolio.

Management

We expect the UK government to respect the devolution settlement and therefore any guidelines for the Fund as a whole should be kept at a strategic broad level and agreed jointly between the UK government and the devolved administrations.

We also recommend that, within the framework of the agreed guidelines, the UK government should transfer responsibility for the detailed design and delivery of the relevant parts of the UK Shared Prosperity Fund to the devolved administrations and their partners.

We further recommend that, reflecting this devolved responsibility, the Fund should be re-branded to reflect the four nations, i.e. UKSPF England, UKSPF Scotland, UKSPF Wales and UKSPF Northern Ireland.

We recommend that there is a strong emphasis on allowing local partners to define and measure target outcomes.

We recommend that the UK government and devolved administrations work with local players to seize the opportunity to design a simplified administrative structure that works.

We recommend that the management structures for the UK Shared Prosperity Fund make greater efforts to engage local authorities.

We recommend that the monitoring and evaluation of programmes and projects aims to build on the experience with EU funding.

APPENDIX: List of organisations making written submissions

Argyll and Bute Council
Association of Colleges
Barrow in Furness BC
Blackpool BC
Centre for Cities
Centre for Cross Border Studies
Comhairie nan Eilean Siar
Convention of Scottish Local Authorities (COSLA)
Cornwall Council
Cornwall and Isles of Scilly LEP
Copeland BC
Coventry City Council
Cumbria County Council
Doncaster MBC
Durham County Council
East Ayrshire Council
East Border Region
East Dunbartonshire Council
East of Scotland European Consortium
East Lancashire Chamber of Commerce
East Midlands Chamber
English Intermediate Bodies Network
Equality and Human Rights Commission
Employment Related Services Association / NCVO
Federation of Small Businesses
Give us a Chance
Glasgow City Council
Greater Lincolnshire LEP
Greater London Authority
Highlands and Islands Enterprise
Highlands and Islands of Scotland European Partnership
Highland Council
Humber LEP
Industrial Communities Alliance
Institute of Economic Development
Joseph Rowntree Foundation
Kent County Council
Key Cities Group
Lancashire County Council
Lincolnshire County Council
Liverpool City Region Combined Authority / Liverpool City Region LEP
Local Government Association
London Councils
Mencap
Merthyr Tydfil CBC
Midlothian Council

Neath Port Talbot CBC
Norfolk County Council
North Ayrshire Council
North East Brexit Group
Northern Ireland Local Government Association
Orkney Islands Council
Perth and Kinross Council
Plymouth City Council
Portsmouth City Council
Preston City Council
Prince’s Trust
Rotherham MBC
Scottish Cities
Scottish Council for Voluntary Organisations
Sheffield City Region
Shetland Islands Council
South Ayrshire Council
South Lanarkshire Council
South Tyneside Council
Sunderland City Council
Telford and Wrekin Council
Tees Valley Mayoral Combined Authority
Torbay Development Agency
Torfaen CBC
TUC
University of the Highlands and Islands
Wales Council for Voluntary Action
Wales TUC
Warrington BC
Welsh Government
Welsh Local Government Association
West Dunbartonshire Council
West of Scotland European Forum
West Yorkshire Combined Authority / Leeds City Region LEP

Business, Energy and Industrial Strategy Committee
House of Commons, London SW1A 0AA
020 7219 5777 - beiscom@parliament.uk - www.parliament.uk/beis - @CommonsBEIS

David Rees AM
Chair, External Affairs and Additional Legislation Committee
National Assembly for Wales

13th May 2019

Re: Proposals for a Shared Prosperity Fund

Dear David,

Thank you for your letter of 2 May regarding the proposed UK Shared Prosperity Fund. As you note, the creation of the Fund is of considerable importance to all regions of the UK, and we await with interest further proposals from the UK Government.

I also read with interest your 2017 report on the future of regional policy for Wales, and your Committee's recommendations.

My Committee has recently launched an inquiry into Supporting regional investment and growth, and the Shared Prosperity Fund is one of the levers that we will be looking at in terms of boosting growth and investment in all areas of the UK. The Committee has not yet formalised its programme of work for the inquiry, but we remain open to any possibilites for collaboration or joint working. I will ask the Clerks of the Committee to keep in contact with the Assembly Clerks during our inquiry. I also look forward to hearing about future work undertaken by your Committee on this issue.

With my best wishes

Rachel Reeves.

Rachel Reeves MP
Chair of the Business, Energy and Industrial Strategy Committee

GREATER**LONDON**AUTHORITY

Alex Conway
Assistant Director, Brexit
and European Programmes
Greater London Authority
City Hall
London SE1 SAA

David Rees AM
Chair of the External Affairs and Additional Legislation Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

21 May 2019

Dear Mr Rees

Proposals for a Shared Prosperity Fund

I am writing in response to your letter to the Mayor of London of 2 May 2019 regarding proposals for a Shared Prosperity Fund (SPF). I am aware you have also written to the Mayor as Chair of the London Economic Action Partnership. This response covers both letters.

Thank you for bringing your Committee's work to our attention. The Mayor is very concerned at the continued uncertainty surrounding the future of regional funding post-Brexit; and has repeatedly called on government to clarify its approach to the SPF, the design of the funds and its already-delayed plans for implementation.

I have attached a position statement (produced jointly with London Councils in December 2017) which covers many of your questions, but in summary:

1. What are the principles that should underpin the new UK Shared Prosperity Fund?

- Devolved across the UK to local areas so that decisions sit much closer to the communities supported;
- Allow devolved areas to determine how best to target this funding;
- The allocation of the Shared Prosperity Fund should be based on a fair measure of need, not regional Gross Value Added;
- Focus on locally-determined impact and outcomes (within a broad, high level national framework if desired); and
- The UK Shared Prosperity Fund should be administratively simple.

For London, local principles also include:

- London's share of the UK Shared Prosperity Fund should be fully devolved to London; and

- London should receive at least as much money as it does currently via the European Structural & Investment Funds 2014-20 and domestic regional funding.

2. What are your priorities in terms of how the UK Shared Prosperity Fund should operate?

It should operate at the local level so that decisions sit close to the communities which will be supported. This includes full devolution of funds and responsibility to London.

3. How should funding be allocated as part of any future fund?

See position statement, response 2 (page 6).

4. What level of devolution should there be from the UK Government in respect of managing the UK Shared Prosperity Fund?

See position statement, response 1 (page 2).

5. What engagement have you had with the UK Government in relation to the UK Shared Prosperity Fund?

The Mayor wrote to the Ministry of Housing, Communities and Local Government (MHCLG) Secretary of State setting out our position statement, which we have since discussed with MHCLG and Department of Business, Energy and Industrial Strategy officials both separately, and alongside other English cities.

I hope this is helpful. If you or colleagues would like to discuss any of these areas further, or related areas of mutual interest; please don't hesitate to contact me.

Yours sincerely

Alex Conway
Assistant Director, Brexit and European Programmes
Greater London Authority

Enclosed: GLA/London Councils position statement on the UK Shared Prosperity Fund

The UK Shared Prosperity Fund – London's Requirements

Introduction

This paper sets out London proposals for the UK Shared Prosperity Fund (UK SPF), which will replace European Structural and Investment Funds after Brexit. This paper presents the jointly held views of:

- The Mayor of London and the Greater London Authority; and
- London Councils, representing the 32 boroughs of London and the City of London.

London is different. It is both a region of the UK and by far the largest of England's 38 Local Enterprise Partnership (LEP) areas, with over 8,900,000 people and a quarter of England's Gross Value Added.

Moreover, London's regional governance arrangements, with the boroughs working in partnership with the Mayor and the Greater London Authority, have been in place for nearly two decades, meaning that structures have bedded down and regional capacity built to a much greater degree than in other cities in England. This is reflected in London's autonomy managing European Structural and Investment Funds (ESIF). The GLA is 'Intermediate Body' for both the European Social Fund (ESF) and the European Regional Development Fund (ERDF), and five of the six local Co-Financing Organisations (CFOs) in England are based in London.

London's political leaders have an ambitious vision for London and its communities and the UK SPF will play an important part in delivering this. This includes:

- Delivering an ambitious devolution agenda – the government's Work and Health Programme has been devolved to London boroughs working in sub-regional partnerships and the Adult Education Budget will be devolved to the Mayor of London by 2019/20.
- Exploring a London-wide business rates pilot pool for 2018/19 that will facilitate collective investment through a strategic investment pot, designed to promote economic growth and lever additional investment funding from other sources.
- London government is also close to agreeing a health devolution deal with national government that will allow local areas to opt-in to detailed devolution proposals in relation to health and social care integration, prevention and reinvestment of capital estate receipts.
- Ensuring London remains the world's top global business city – crucial not just for the city's prosperity but for the UK as a whole. We need to support innovation and business investment (particularly in important and growing sectors), alongside digital and physical infrastructure. We need to deal effectively with London's changing relationship with the world after Brexit, maintaining London's openness, exports and access to talent where possible.
- Accommodating growth with inclusive or 'good' growth principles – investing in social and environmental infrastructure in order to unlock people's potential and ensure that all Londoners as well as the rest of the UK can benefit fully from the London's economic growth. We want to create a more inclusive and sustainable form of growth.

This vision will help the government deliver the aims and objectives of its Industrial Strategy.

We therefore welcome the government's commitment to a replacement United Kingdom Shared Prosperity Fund that can be used to address the significant challenges and opportunities around employment, skills and growth within the capital. This paper presents London's key requirements for the UK SPF and outlines a clearly evidenced rationale for each. Our four requirements are:

1) London's share of the UK SPF be fully devolved to London.
2) Allocation of the UK SPF be based on a fair measure of need, not regional Gross Value Added.
3) London to receive at least as much funding as currently via EU programmes.
4) UK SPF administration be much simplified by comparison with EU programmes.

1) London's share of the UK Shared Prosperity Fund fully devolved to London

Management of ESIF funding in London is already devolved by government to the GLA, which has been granted 'Intermediate Body' status. The LEP's London ESIF Committee has strategic oversight of how ESIF is spent in London; and the Mayor takes the final decision to commit funds. So any centralisation would be retrograde.

UK SPF should:

- Be devolved across the UK to local areas so that decisions sit much closer to the communities supported;
- Allow devolved areas to determine how best to target this funding;
- Focus on locally-determined impact and outcomes (within a broad, high level national framework if desired); and
- In London, be sufficiently flexible and responsive to enable:
  - Links to be made with other devolved funds, such as the Adult Education Budget and Work & Health Programme, and integration with other local services, including local government and voluntary provision;
  - New and innovative approaches to be tested to deal with entrenched problems to support public service reform, with a mix of shorter and longer-term funding;
  - Changes to be made in response to impact and evaluation data; and
  - Ease of access for providers of all sizes and sectors.

There are clear benefits of devolving funding:

- Devolution of funding encourages **greater partnership working between different services**. When funding is devolved local actors have much greater 'buy in' to services and incentives to work together. For example, London's ESF Troubled Families (TF) programme was designed by London Councils and has largely avoided the problems experienced by the previous centrally-designed ESF TF programme. As boroughs were involved from the outset, clear ways of working between borough families' teams and ESF providers were included.

Centralising the UK SPF would hamper London's ability to integrate and align it with other local budgets, including newly devolved funding such as the Work and Health programme and Adult Education Budget, but also existing locally controlled funding through the GLA, boroughs, LEAP (London's LEP), and local NHS provision.

- Devolution of funding will **drive innovation and increase performance** through the resultant pluralism of approaches that will be used. This pluralism will drive experimentation and innovation. Whilst some ideas will succeed and others will fail, the constant testing will drive up standards overall. We suggest that central Government should only set broad priorities for funding, and that local areas should determine precisely what local priorities are and how they can be achieved. There should be public transparency about performance so that local areas can learn from each other and drive up performance across the country.

  London has a strong track record of using EU funds innovatively, transparently and without major compliance issues. For example, our innovative ERDF-backed 'Financial Instruments' have created successful recyclable loan and equity investment funds for small businesses and green infrastructure; attracting attention and awards from across the world. Our ERDF projects harness our big world-class research institutions to help entrepreneurs and vice-versa; and sell London digital and creative innovation here and abroad

Our innovative approaches apply equally to skills and employment. The GLA ESF Co-Financing Organisation's 2007-13 ESF programme was the first to trial 12 month sustained job outcomes, before DWP. In the current round of ESF programmes, London has again looked to develop innovative ideas like supporting boroughs and Clinical Commissioning Groups to co-design employment support for people with mental health conditions which integrated with NHS services. Evaluation of the current ESF programme is currently underway. Interim findings will be available in early 2018, and can be shared with government.

- Devolution of funding allows local areas to **better react to local needs**. London in particular is different to other LEPs. While most LEPs split their ESIF allocations equally between ESF and ERDF, London has a 75% : 25% split in favour of ESF. This reflects London's below average employment rate, and its share of some of the most deprived wards in the country (often adjacent to the wealthiest). If future funding were to mandate a split between employment and skills support and business / low carbon programmes, or prioritise one over the other; then London would be unable to invest in the most beneficial way.

  In terms of employment and skills funding, London has different priorities to most other parts of the UK. For example, higher living and childcare costs keep lone parents out of work. London has a high proportion of the population from BAME groups, so targeted support for these communities is especially valuable. And the high costs of living in London, coupled with low wages and insecure work, means that London suffers disproportionately from poverty, including in-work poverty. London also has a high proportion of its workforce who are EU nationals and migrants.[1] As such, it is likely to be particularly vulnerable to changes in migration patterns that might be brought about by Brexit. Only with devolved funding can London react to particular challenges.

The **benefits of devolution can be diluted where local control is not complete**. The majority of London's current ESF programmes were locally designed but were procured and are being managed by the national co-financing organisations – Department for Work & Pensions, Education & Skills Funding Agency and the Big Lottery Fund. There are many examples of CFOs not being willing to implement locally-designed projects in the way the LEP intended; and /or of local intentions being 'lost in translation' when implemented by national organisations. For example, ESFA failed to procure an evaluator for our innovative pilot programme supporting gang members, meaning there will be no impact analysis or independent evaluation of it. Such evaluation was at the heart of the project, but ESFA priorities lay elsewhere.

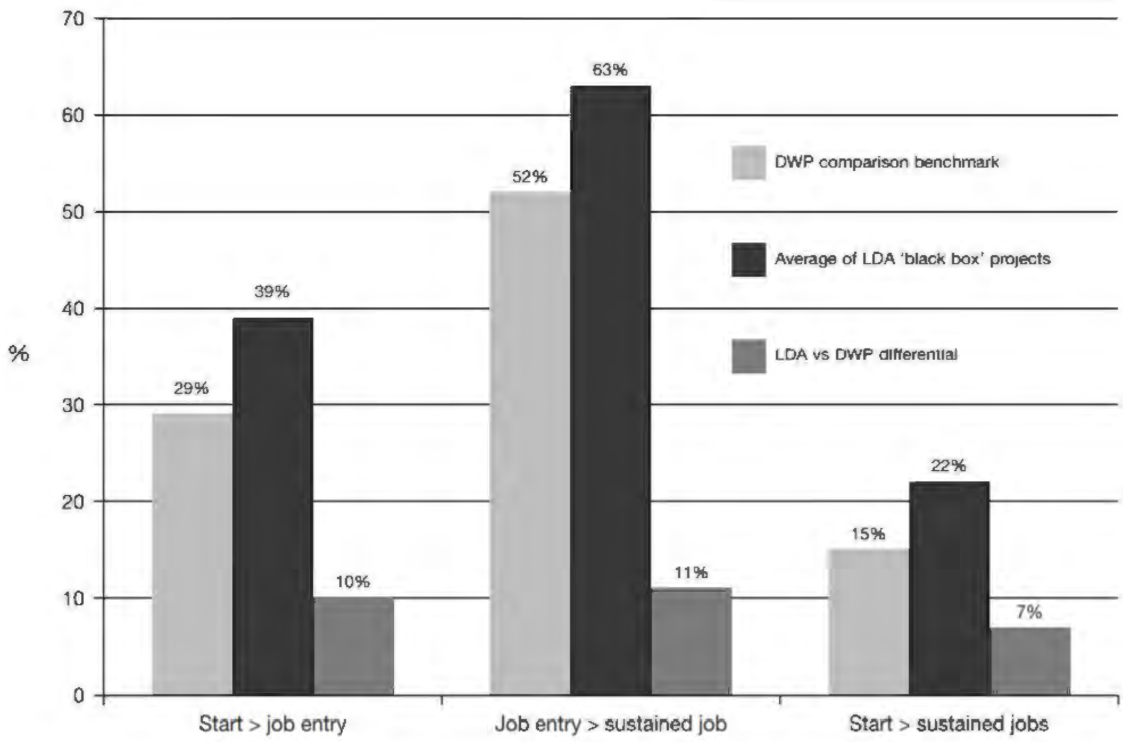
London has the capabilities and track record to deliver a fully devolved programme, as the rest of this section will show.

[1] The London Business Survey (2016) report that nearly one in three of London's workforce is non-UK born and 90% of London businesses recruit EU citizens (69% also recruit non-EU workers). London employs a higher proportion of EU nationals than the UK as a whole across all sectors.

In particular, London has **robust commercial and technical capabilities**, and our performance has been consistently high. The GLA has overseen innovative and compliant European programmes, despite their disproportionately rigid audit and compliance regimes.

Our strong systems have ensured **better results** in London. For example, independent research has found that the London Development Agency (LDA)/GLA CFO programmes significantly outperformed similar DWP programmes investing the same amount of money (see chart below).[2]

Comparing 'black box' project performance



Source: P Bivand and L Gardiner, *Assessing the LDA's Labour Market Programme Performance: final report to the London Development Agency*, Centre for Economic and Social Inclusion, 2011

Moreover, **current governance arrangements in London are already fully transparent and accountable**. All Mayoral and official decisions within the GLA are published online[3], as are LEP decisions and papers. LEP and associated committees are recruited openly and competitively, and reflect London's diverse communities and stakeholders. London would develop robust governance arrangements for a devolved Shared Prosperity Fund based on the same principles of transparency and democratic accountability.

[2] http://cpag.org.uk/sites/default/files/121114%20We%20can%20work%20it%20out%20final.pdf, p.55

[3] https://www.london.gov.uk/about-us/governance-and-spending/good-governance/decisions?order=DESC

2) Allocation of the UK Shared Prosperity Fund based on a fair measure of need

We believe that growth and prosperity should be shared throughout the UK, and that funding should be divided between areas based on need. Gross Value Added[4] is not an appropriate metric with which to split funding, as it takes no account of the residents of any given locality, only the economic activity. While London is a highly productive economy it also has on many measures higher rates of disadvantage and poverty than the country as a whole. Funding should be divided fairly across local areas on the basis of this need.

Allocating funding via GVA would mean penalising those residents of Tower Hamlets, one of the most deprived Local Authorities in the UK[5], who live in close proximity to both Canary Wharf and the City of London. This is one of the most productive localities in the world. But most people working there live in wealthier parts of outer London and the Home Counties; meaning the economic output generated is shared across the Greater South East region.

In our view, **the Index of Multiple Deprivation (IMD) presents a better basis on which to divide funding**, as it incorporates the primary elements which determine peoples' quality of life, including income, employment, education, health, crime, housing and the living environment.

The IMD shows that, despite London's productivity, it also includes areas of significant deprivation and therefore needs a fair level of investment from the UK SPF. For example, London has the highest number of deprived LSOAs of any region in in England[6]. Moreover, half of London's boroughs[7] contain areas that fall within the 5 per cent most deprived areas of England. The City of London and Richmond are the only local authority areas within London with no areas in the most deprived 20 per cent of England.

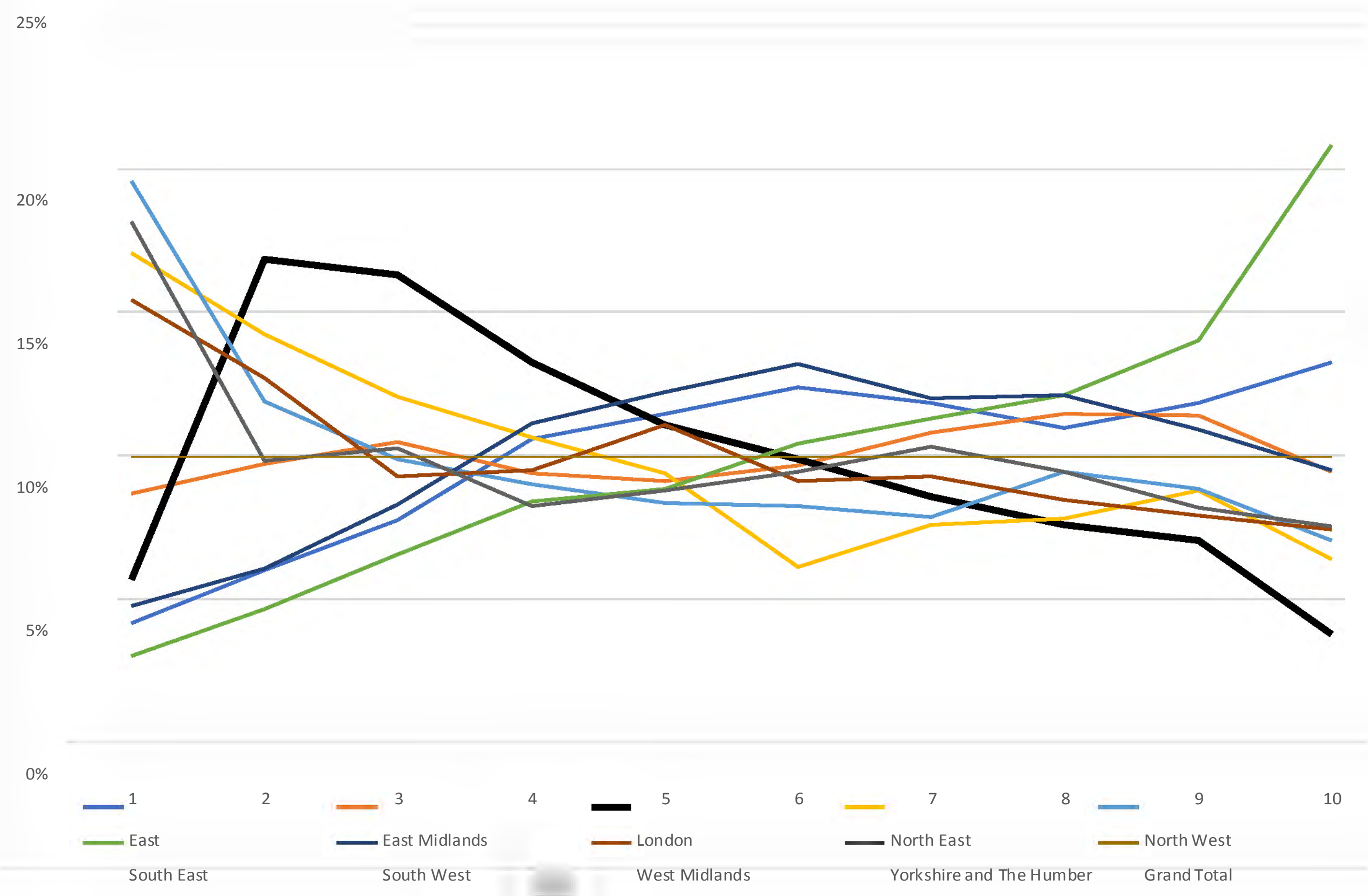
[4] Gross Value Added (GVA) is a measure of the increase in the value of the economy due to the production of goods and services.

[5] Only 18 out of the 152 Local Authorities in England have a higher proportion of LSOAs in the 10% most deprived than Tower Hamlets.

[6] Deprived defined as being in the most 30% deprived

[7] Barking & Dagenham, Brent, Croydon, Ealing, Enfield, Hackney, Haringey, Islington, Kensington & Chelsea, Croydon, Lambeth, Lewisham, Newham, Tower Hamlets, Waltham Forest and Westminster

Proportion of LSOAs in deciles of multiple deprivation (where 1 is the 10% most deprived LSOAs and 10 is the least 10% least deprived)



High levels of deprivation are strongly related both to:

- Higher levels of unemployment / lower employment rates in London compared to the UK as a whole, particularly for some subgroups; and
- Higher levels of poverty, including in work poverty, than the UK as a whole, in part driven by higher living costs (especially housing costs).

The number of Londoners claiming Jobseekers Allowance (JSA) is currently low. But this masks a long-standing well-known structural employment problem in London.

The disability employment gap[8] in the capital has remained wide for over a decade and currently stands at 26.5 per cent. There are over 280,000 Londoners claiming Employment and Support Allowance (ESA) – where someone is out of work because of a disability or health condition – and the numbers claiming this benefit have remained stubbornly high, unaffected by economic cycles. In addition, a third of all JSA claimants have been out of work for a year or more. The proportion of JSA claimants who are long-term unemployed has increased in recent years in the capital.

[8] The gap between the employment rate among disabled people and non-disabled people

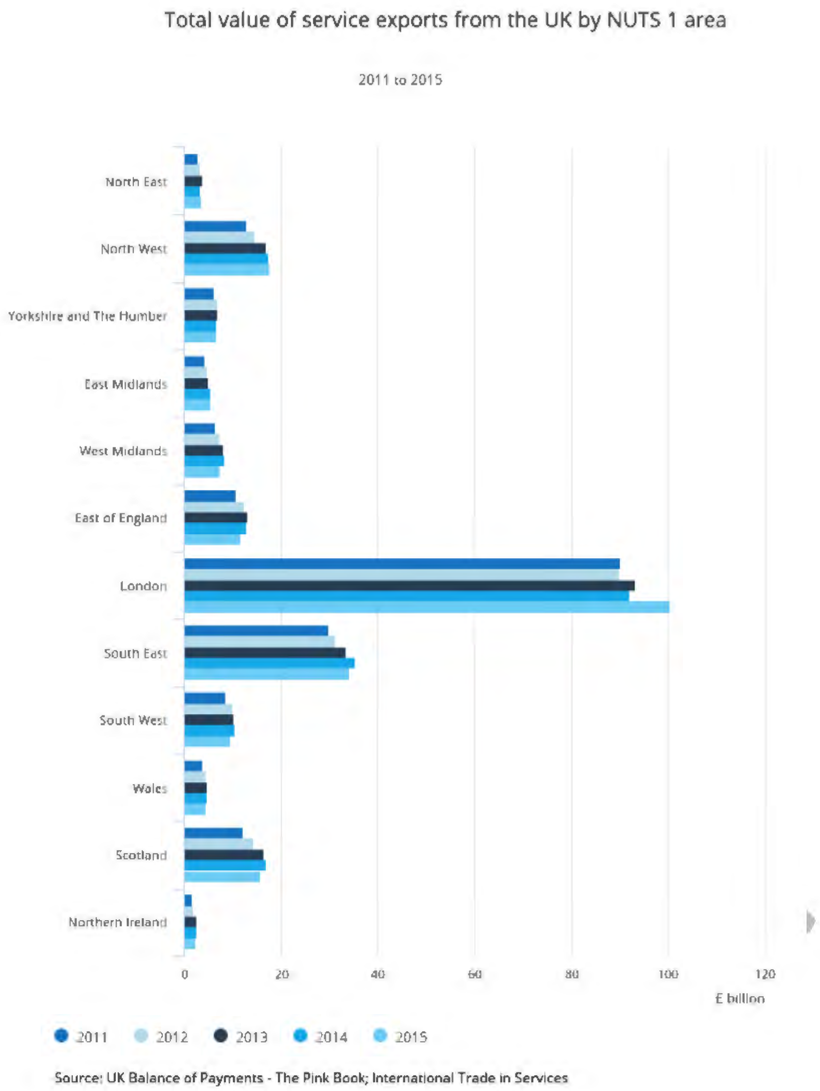
Furthermore, over the last three years London's unemployment rate among 16 to 24 year olds has remained high at 16.3 per cent: the second highest among UK regions. Long periods of unemployment at the beginning of an individual's career can have a long term 'scarring' effect - making it more likely that they will be unemployed again in the future, and dragging down wages and job progression over the course of their lifetime.

As demonstrated in more detail in Annex 1, in many respects London's labour market is worse than the country as a whole. For example:

- London has a lower employment rate and higher unemployment rate than the UK as a whole;
- London has higher youth unemployment than the UK as a whole;
- Parental employment rates in London, particularly for women, are lower than the UK as a whole, in part as a result of higher childcare costs; and
- Poverty levels among London's population after taking account of housing are higher than the UK as a whole.

UK SPF should also look to complement other government policies, notably the Industrial Strategy. The Industrial Strategy Green Paper notes that the aim of the UK's Industrial Strategy is to "improve living standards and economic growth." Clearly, in order to achieve greater growth and prosperity nationally, London cannot be left out of the picture.

London's businesses are a key source of UK exports, particularly service exports (see chart below). As the UK leaves the EU it will be crucial to ensure that the London businesses are able to thrive and remain globally competitive. Part of this is ensuring that the new and innovative businesses are able to grow and enter the export market, and that the agglomeration benefits of a global city like London are not stifled by any other structural weaknesses.



https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/articles/estimatingthevalueofserviceexportsabroadfromdifferentpartsoftheuk/2011to2015

Without a fair allocation of UK SPF, there are particular issues in London that will affect its ability to contribute to the UK's prosperity. The first is a shortage of workspaces, which up until now have been successfully supported through London's ERDF programme. Shared workspaces are crucial for London's entrepreneurial creative and digital sectors, amongst others. Estimates suggest that London's open workspaces host 31,000 people, generating £1.7 billion in GVA. In some cases, open workspaces have generated an additional £40.80 for every £1 invested – far higher than DCLG's guidance of £5.80 per £1 of regeneration investment.[9]

However, these successes are under threat without continued funding. In particular, London's booming property market is pushing up rents for workspaces, and employment space outside London's most central economic area is being lost through permitted development rights, which allow the conversion of office space to residential use with

[9] https://www.london.gov.uk/sites/default/files/valueofworkspace-ippr2016.pdf

minimal planning requirements their tenants. Moreover, decreased local authority funding has led to sharp rent increases for council-owned property in some areas.

There are also particular opportunities specific to London. London is home to some of the UK's best universities and ERDF funding has been used to help translate the expertise of London's HEIs into profitable and innovative businesses. For example, ERDF funds London South Bank University's Investment Escalator, which is supporting nearly 600 SMEs to grow.[10] Other projects are run by Kings College London, UCL, Brunel University, the University of West London and the University of the Arts, London. Without similar funding, the expertise and innovation of London's HEIs may not so easily come to the market.

Support for enterprise is also important in terms of social inclusion, and many of London's current EU programmes look to ensure disadvantaged groups are given opportunities. For example, Enterprise for Everyone, run by the East London Small Business Centre, supports clients with ambitions and aspirations to start up a business, and works with SMEs during their early stages, including social enterprises and entrepreneurs wishing to set up social enterprises

This section has shown that, despite London's high GVA, it suffers from severe deprivation. Moreover, London's contribution to the UK's prosperity and its exports cannot be taken for granted without continued investment. A fair allocation of the UK SPF, probably based on IMD, is needed to tackle these challenges.

3) London should receive at least as much money as it does currently via the European Structural & Investment Funds

A reduction in local growth funding would **hit the most deprived people the hardest**. ESF is particularly effective at targeting those groups Jobcentre Plus does not access, such as economically inactive people who are not claiming benefits. It is natural that DWP focuses its employment support on its customers, namely active benefit claimants. But many of the most disadvantaged people in society do not engage with DWP employment support, and without other support these groups are unlikely to be able to move out of poverty.

For example, ESF in London has invested in support for economically inactive BAME women from particular communities, such as Bangladeshi, Pakistani and Somali women. These groups are unlikely to receive support through Jobcentre Plus, but targeted ESF-funded interventions are one way of providing support to them. Similarly, there are no work-related requirements for many carers, who therefore receive no labour market support and as a result find it extremely difficult to return to work. Again, London's targeted ESF programme looks to help this group avoid their skills atrophying.

Reduced public finances in London for both central and local government means that there is considerably less capacity in mainstream funding or other budgets to support these groups. For example:

10 http://www.lsbu.ac.uk/case-studies/investment-escalator

- National funding for the Work and Health Programme is 70 percent less than that previously allocated to the Work Programme; the key employment programme that preceded it.

- Reductions in local authority spending means that the focus is on meeting statutory obligations for young people but often very little else. During the last and current spending review periods (2010 – 2020), London boroughs will see a 63 percent cut in their core funding from government. Recent research highlights that council youth service budgets across London have been reduced by £22 million between 2012/13 and 2016/17 and funding to voluntary sector youth work has gone down by an average of 35 per cent (where information was provided).[11]

- Funding allocations for adult further education (FE) and skills in England have fallen by 14% in real terms between 2010/11 and 2015/16. In the same period, the Adult Skills Budget, excluding Apprenticeships, fell by of 57%.[12] The fall in FE budgets mean that funding is largely spent delivering statutory entitlements.

- The 2011 Education Act shifted responsibility for careers guidance from local authorities to schools, with no additional funding and in 2012 the duty was extended to colleges. Under the reforms, the government funded Connexions service was dismantled at a national level and the National Careers Service was launched in April 2012 with only web and phone-based advice for under 19s. Around £200m nationally was removed from local government funding and did not reappear in schools budgets to support the new duty. The loss of this funding was reported to the *House of Commons Education Committee Careers guidance for young people: The impact of the new duty on schools*[13].

This means that ESF funding has become an increasingly important element of the provision for unemployed young people and adults. Without it, support for the most disadvantaged is likely to completely or nearly dry up, or be funded solely through the voluntary and community sector.

4) The UK Shared Prosperity Fund should be administratively simple

Whilst ESIF programmes in London have been innovative and achieved much, it is also true that the complex audit-heavy funding model designed by the European Commission, and sometimes further over-bureaucratised by the UK government; has meant that programmes have not always met their full potential. Too much energy is spent ensuring compliance against a wealth of programme guidance. This focus on spending money in a compliant way can be to the detriment of driving performance and innovation.

The design of the UK SPF presents an opportunity to build on the best elements of ESIF, whilst revamping the administration. The UK SPF should significantly reduce the bureaucracy associated with running the programmes. This should:

[11] https://www.london.gov.uk/sites/default/files/london_lost_youth_services_sian_berry_jan2017.pdf
[12] http://researchbriefings.files.parliament.uk/documents/CBP-7708/CBP-7708.pdf
[13] https://publications.parliament.uk/pa/cm201213/cmselect/cmeduc/632/632vw.pdf

- At the most, provide a set of 'light touch', minimum standards guidance and regulation outlining how funding is spent. The more this is specified centrally, the less well local areas will be able to use budgets flexibility and join up with other funding streams;
- Not specify payment mechanisms that local areas are mandated to use;
- Require that only limited Management Information be submitted to central government, with any submissions just providing headline data;
- Have no requirement for match funding. While local areas may wish to use UK SPF to leverage additional funding, this should not be a centrally specified requirement; in part because local actors have relatively limited other funds to invest in similar activity given funding cuts outlined in the section above.
- Significantly reduce audit and monitoring requirements, to bring them into line with other domestic funds.

Nevertheless, some elements of the way ESIF funding is designed are to be welcomed. In particular, ESIF funding allocations are fixed for seven years, allowing local areas to plan over longer periods. While allocations of this length may not be possible in future given the frequency of government Spending Reviews, allocations should allow for at least medium-term planning in local areas.

The ESF evaluation regime invests heavily in counting results for the European Commission. Evaluation in the UK SPF should instead focus on building stronger evidence base of what works, with a focus on conducting robust impact analysis. Good practice should be shared between local areas in order to drive up standards across the system. Government should track programme results in a way that puts as little burden as possible on providers and local areas; for example, it should build a platform to use HMRC Real Time Information (RTI) to look at the incomes of participants.

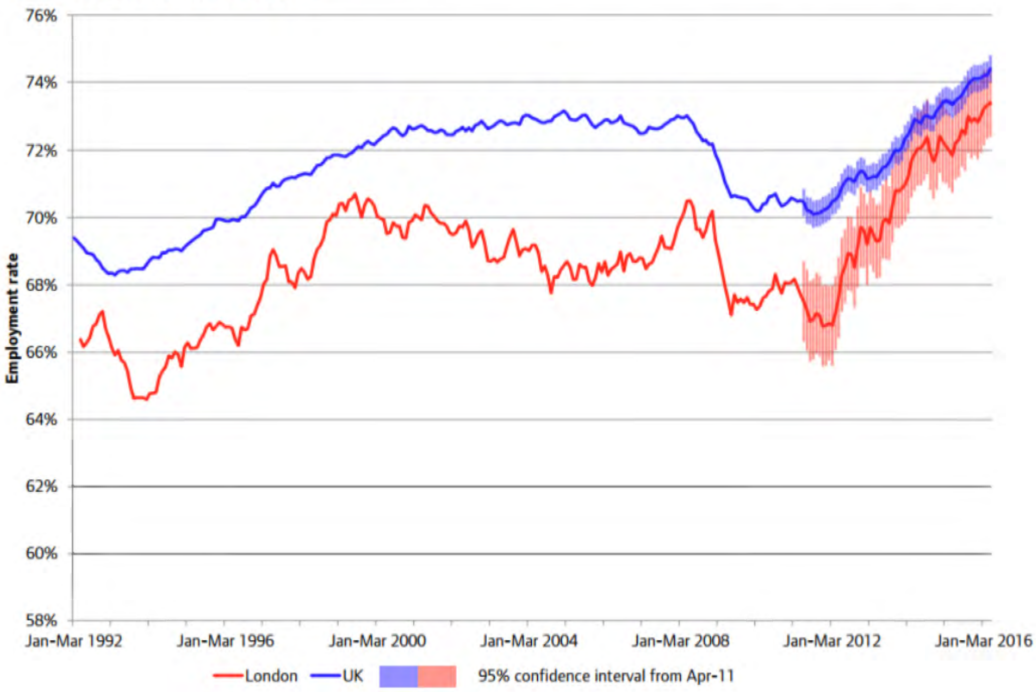
Conclusion

The UK Shared Prosperity Fund presents the UK with an opportunity for local growth funding to drive local economies, reduce inequalities and help disadvantaged people to contribute to the economy as best they can. However, to realise the potential of this fund, we consider that the four principles set out above must be applied.

Annex 1 – Analysis of London labour market and poverty levels compared to the UK averages

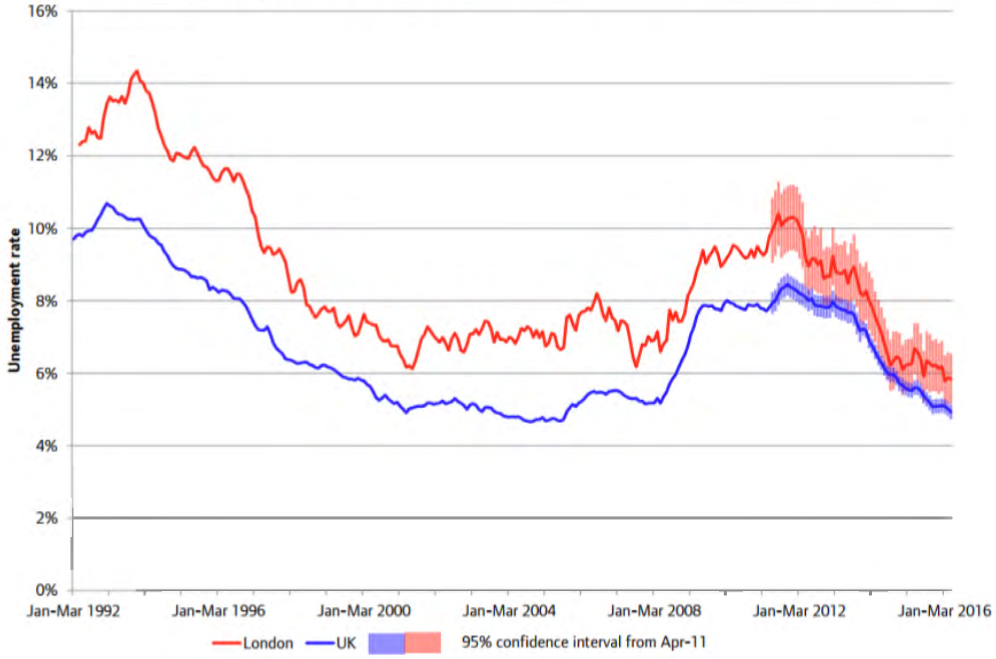
London has had a lower employment rate than the UK since 1992. For example, in the three months to May 2016, the UK's employment was 74.4 per cent – 1 percentage point above London. Similarly, London's *un*employment rate is 1 percentage point higher than the UK rate (see charts below).

Employment rates in London and the UK, residents 16-64 years, three-month rolling average, 1992 to 2016



Source: ONS Labour Force Survey

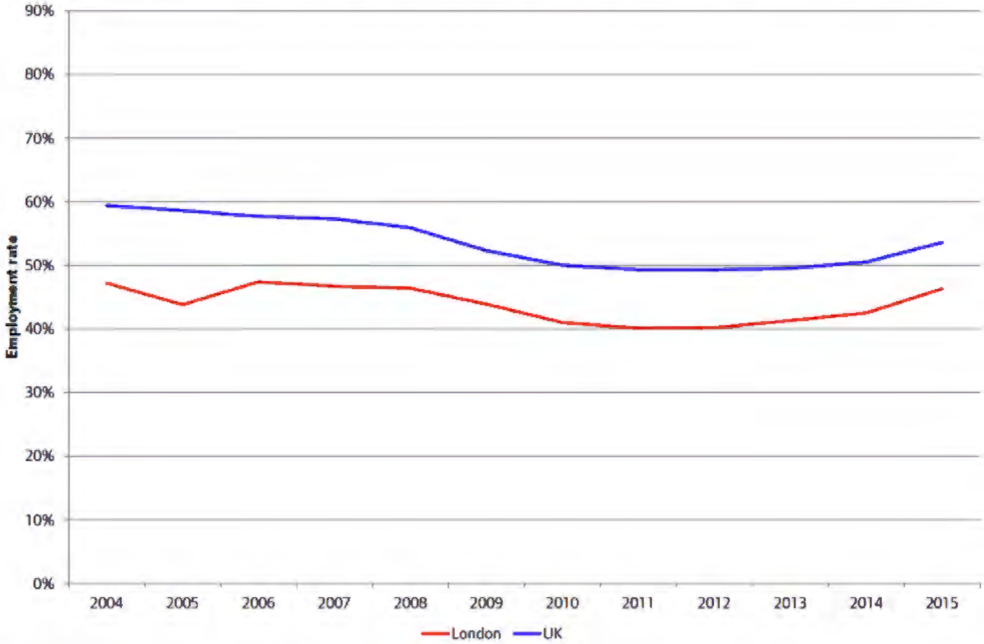
Unemployment rates in London and the UK, residents aged 16 years and over, three-month rolling average, 1992 to 2016



Source: ONS Labour Force Survey

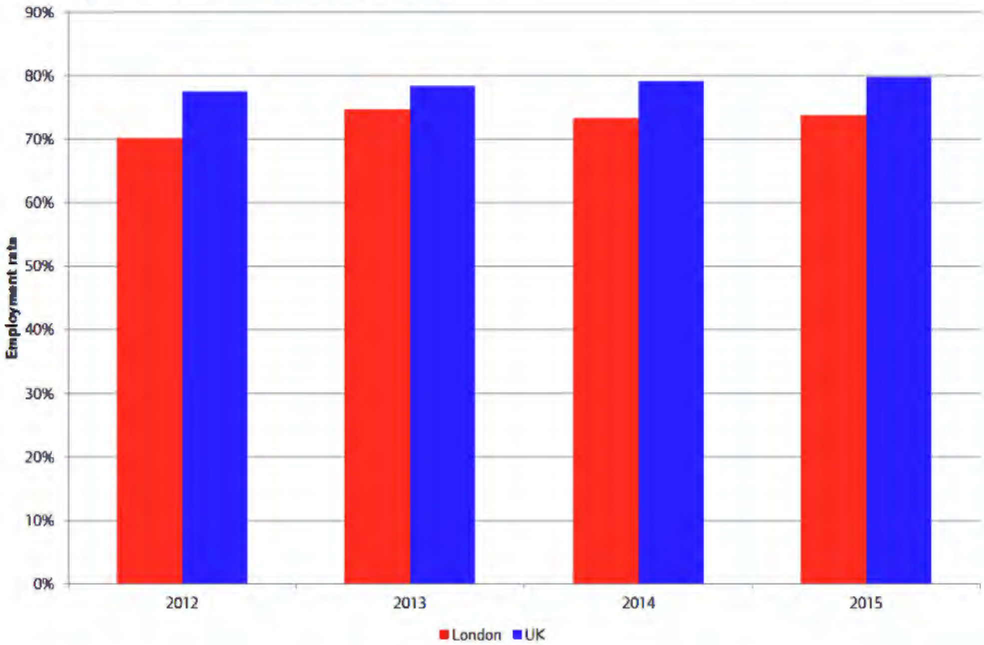
Some particular groups have lower employment rates in London than the rest of the UK. This includes young people, where the employment rate in London is 7.3 percentage points lower in London than the rest of the UK, and also parents with dependent children, whose employment rate was 6.1 percentage points lower in London than the UK as a whole in 2015. For the latter, higher costs of childcare are likely to make work pay less in London than other regions with lower childcare costs.

Employment rates for the 16-24 age group for London and the UK, residents, 2004 to 2015



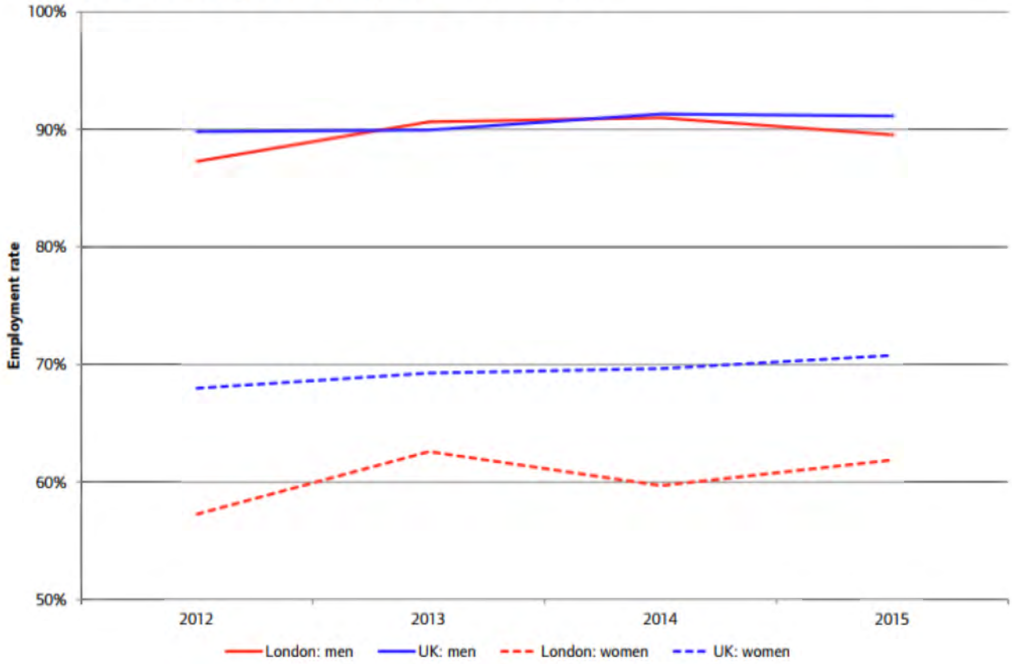
Note: January to December periods and has been reweighted in July 2016.
Source: ONS Annual Population Survey

Employment rates of parents with dependent children in London and the UK, residents aged 16-64 years, 2012 to 2015



Note: April to June periods.
Source: ONS Labour Force Survey household datasets

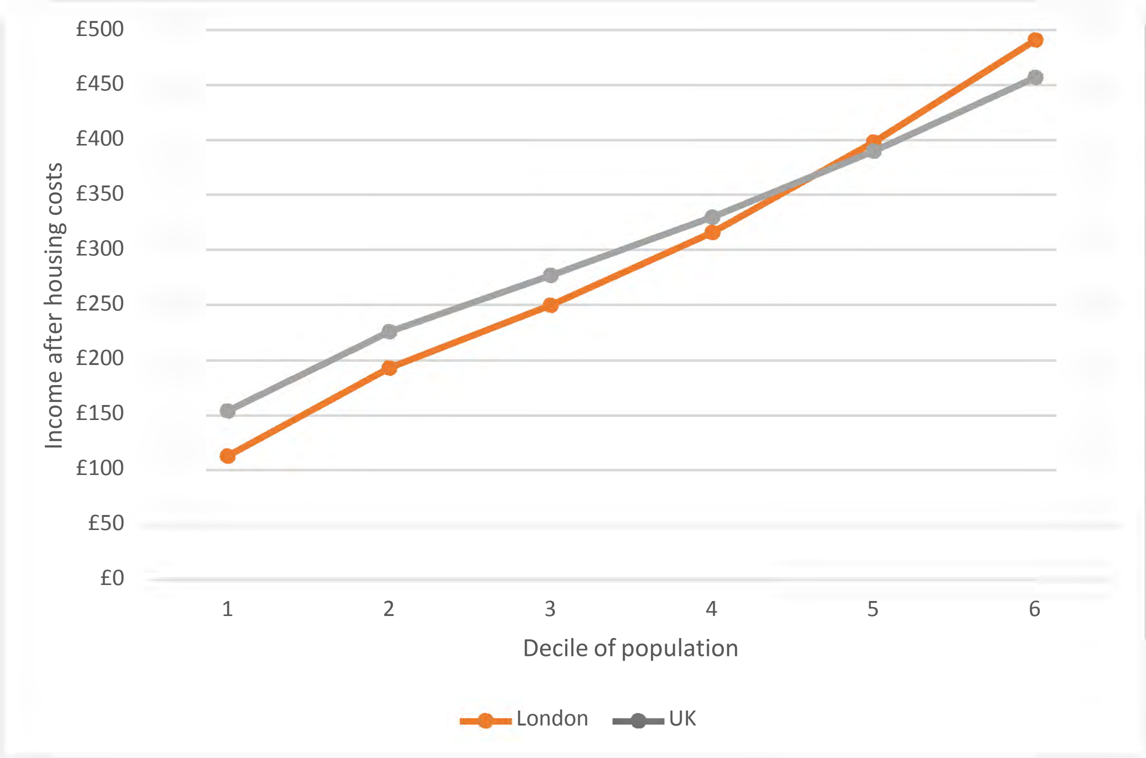
Employment rates of parents with dependent children by gender for London and the UK, residents aged 16-64 years, 2012 to 2015



Note: April to June periods. Source: ONS Labour Force Survey household datasets

Moreover, poverty levels among London's population after taking account of housing are much higher than the UK as a whole. Up to a third of all inner London residents are in poverty by this measure and nearly a quarter of outer London residents – both are higher than any other UK region. The chart below shows that, after housing costs, Londoners in lower income deciles, have lower income than those in the UK as a whole.

Equivalised net household income after housing costs



Source: DWP Family Resources Survey, 2011/12-2013/14 (three year average), all households, adjusted for inflation using ONS RPI All Prices Index

Poverty is a problem that is only getting worse in London. Between 2008 and 2015 London's nominal median gross hourly wage increased by 8.4 per cent. This was the slowest rate of increase across all 12 UK regions (with the average rate of growth 11.5 percent for the UK). This coupled with the rise in costs over the same period, with increases in housing costs, transport costs, childcare costs and fuel costs have all combined to reduce the affordability of living in London in recent times.

Having said that, the richest population deciles in London have incomes in excess of any other region, meaning that London is, by a distance, the most unequal region in the country.

GMCA GREATER MANCHESTER COMBINED AUTHORITY

ANDY BURNHAM
MAYOR OF GREATER MANCHESTER

To be sent via email

Dear David

Thank you for your letter regarding the UK Shared Prosperity Fund. I am delighted to share with you a set of principles developed by the Greater Manchester Combined Authority outlining the purpose, design and governance arrangements for the UK Shared Prosperity Fund.

1. Programme Purpose

1.1 The fundamental purpose of the UK Shared Prosperity Fund (UKSPF) should be to drive productivity, ensuring all communities in Greater Manchester can contribute to, and benefit from, growth that is inclusive. Greater Manchester has already identified the challenges we face to increase our productivity through the Independent Prosperity Review, and both the Greater Manchester Strategy and our Local Industrial Strategy, that we have just published with the UK Government, sets out actions to tackle these. The UKSPF will be the key source of funding to deliver these.

1.2 We believe addressing education and skills, health, wellbeing, environment, work and economic growth simultaneously is the best way to bring about change. Combining these elements not only helps to raise productivity and employment but also ensures that the root cause of issues affecting individuals are tackled and that we can focus on prevention rather than cure to drive inclusive growth and create the opportunity to put services on a sustainable fiscal footing.

1.3 We have there developed a set of principles outlining the purpose, design and governance arrangements for the UKSPF.

2. Principles – Programme Design

2.1 **Multi-year funding**: We would support a multi-year people and place based allocation, focused on an agreed set of outcomes for each area, with a strong (and funded) local project development and performance management function, reporting centrally as required.

2.2 **Devolved Place based single pot**: We would also suggest that the starting point for a UKSPF needs to extend further than the existing European Structural Investment Funds (ESIF) purpose and should underpin a people and place based single pot to support wider sustainable and inclusive growth. Funding should be fully devolved to the place.

A key principle of the UKSPF is that it should be a place based allocation, as a minimum covering the current European Regional Development Fund (ERDF) and European Social Fund (ESF) priorities and scale for both job creation and skills, focussed on the delivery of Local Industrial Strategy priorities, local regeneration and the delivery of the Northern Powerhouse priorities. The criteria for this allocation should be based upon:

- Socio-economic indicators
- Past levels of spend
- Past levels of delivery
- Future Growth priorities

3.3 **Match funding**: The majority of ESIF funding has been matched against other "domestic" funding, such as DWP, BEIS or DIT monies. The principle for successor funding should include both the ESIF "replacement" and the public sector match in a place based flexible fund. The place based allocation of funding should look to pool a number of national funds focussed on driving inclusive economic growth. This should also include any future City Deal/Local Growth Funding, as well as further investigation of any "place and skills pillars" elements of the Industrial Strategy Challenge Fund. This should also complement whatever Horizon 2020 or other transnational funding arrangements are made.

3.4 **Funding flexibilities:** The funding should be flexible so that it can be used for both capital and revenue purposes, and the innovations pioneered by GM in terms of the creation of local revolving investment funds (Evergreen) as well as grant to meet the needs of the locality.

UKSPF should learn from the lessons of ESIF to ensure unnecessary constraints and restrictions on funding are lifted to ensure UKSPF is more flexible and responsive.

3.5 **An integrated place based fund**: UKSPF should drive productivity, ensuring all communities in Greater Manchester can contribute to, and benefit from, growth from the priorities identified in the Greater Manchester Strategy and Local Industrial Strategy. The fund should be fully devolved so that it can deliver holistic solutions that tackle issues of disadvantages communities, infrastructure, skills/work support and delivery of the Industrial Strategy in a locality in an integrated way.

Greater Manchester has a history of successfully delivered innovative investments, from the revolving commercial development loan funds of our Evergreen financial instruments over the previous and current ESIF funding periods, which combined EU and domestic funding and has allowed us to work with the private sector to deliver high quality commercial and specialist space for our priority sectors including Citylabs, Mediacity, Logistics North and the Cotton Building in the city centre.

3.6 **Funding level**: GM would expect the level of UKSPF made available to GM to be at least the same value as the current ESIF programme, plus public match funding. And any future LGF type funding.

4. <u>Principles - Governance</u>

4.1 **Geographic allocation**: Funding should be devolved to functional economic areas, taking account of relevant administration and governance structures in place – such as Mayoral Combined Authorities where these are in place.

4.2 **Local Accountability and commissioning**: There are now a number of Mayoral Combined Authorities across England, with directly elected representation as agreed under the terms of Devolution Agreements. In areas with Mayoral CAs, the CAs should act as the accountable and commissioning body. A number of CAs now have some form of IB status under the current ESIF programme having clearly demonstrated auditable capacity and competence to manage a number of aspects of ESIF.

4.3 **Support for local capacity**: Implicit within this is a recognition of the different levels of capacity and capability of local areas across the UK to provide the robust evidence base for a local industrial strategy and to manage and deliver a local allocation from UKSPF. Consideration should be given to the allocation of funding across functional economic areas with devolved responsibilities to build and maintain local capacity to develop or support these functions.

4.4 **Devolved Governance**: Following on from the point above, a “one size fits all” model of local governance will not be appropriate, and those areas with the proven capability to do so should be responsible for decision making around the new fund that should be fully devolved in these areas.

5 Principles: Process and Accountability

5.1 **Process simplification**. UKSPF should have simple process in terms of administering the future and not be overly bureaucratic to ensure maximisation of available resources. The revised and lighter touch processes used for the latest round of Growth Deals should be considered when developing the processes around UKSPF.

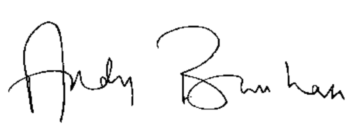
5.2 **Outcome driven funding**: The current ESIF funding model is output driven, which although a useful tool to quantitatively measure performance, can constrain innovation, push activity to safe, tried and tested (but not always the most effective) methods of delivery and support volume of outputs over quality. The use of financial performance incentives (the ESIF performance reserve) is also counterproductive to experimentation, and will always push towards low risk approaches to delivery. The development of a new outcome driven model based upon local Industrial Strategies (and within GM on the GMS and the outcomes framework).

In areas with Mayoral Devolution Deals, funding should be allocated on an outcome not output basis subject to models similar to our existing LGF Green Book assurance process. This is further evidenced with GM’s IB and CFO status, where sufficiently robust systems are in place to ensure good practice on the management of public funding. GM currently manages in excess of £775m of LGF/Earnback and devolved transport grant using this assurance process.

5.3 **State Aid**: The future of State Aid restrictions in any successor funding will be critical, but it is assumed this will not be confirmed until we know the nature of our future relationships with Europe.

Please do not hesitate to contact me should you require any further information.

Yours sincerely



ANDY BURNHAM
CHAIR OF THE GREATER MANCHESTER COMBINED AUTHOIRTY & MAYOR OF GREATER MANCHESTER

The Scottish Parliament
Pàrlamaid na h-Alba

Finance and Constitution Committee

The Scottish Parliament
EDINBURGH
EH99 1SP

finance.constitution@parliament.scot

David Rees AM
Chair
External Affairs and Additional Legislation Committee
(by e-mail)

5 June 2019

Dear David,

Thank you for your letter dated 2 May 2019 in which you seek the views of the Finance and Constitution Committee on a range of aspects of replacement funds for European Structural and Investment Funds (ESIF).

As your Committee may be aware this is an issue that the Finance and Constitution Committee has been inquiring into. That inquiry was launched at the start of the year to consider the funding of EU Structural Fund priorities in Scotland, post-Brexit. We have included LEADER funding within our inquiry given it seeks to achieve similar outcomes to those of structural funding.

We have had a good response to our call for views with 50 written submissions received. A summary of the written views received is available on the Committee's webpage as a detailed submission from Professor David Bell on aspects of the UK Shared Prosperity Fund.

Mindful of the work already undertaken by the Economy, Energy and Fair Work Committee on ESIF (and their resulting views as set out in letters to the UK and Scottish Governments) the Committee has sought to include consideration of how structural funds operate at a local level. We have therefore held a series of workshops in Paisley, Inverness and Dunfermline to discuss how EU Structural and LEADER funding currently operates at the administrator/recipient level across a range of sectors as well as the impact of different future funding approaches.

Summary notes from these workshops will be published shortly and will help inform evidence with witnesses at Committee meetings later in June. The Committee anticipates publishing its views in the autumn and I would expect that some of the questions you pose in your letter will be addressed by that report.

I hope this response helps to inform your approach and I look forward to hearing about the next steps with your Committee's work in this important area.

Yours sincerely

Bruce Crawford MSP
Convener

Minister for Trade, Investment and Innovation
Ivan McKee MSP

Scottish Government
Riaghaltas na h-Alba
gov.scot

Mr David Rees AM
External Affairs and Additional Legislation
Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Our ref: 2019/0013548
31 May 2019

Dear David,

Thank you for your email of 2 May regarding the replacement for the European Structural and Investment Funds programmes after the UK leaves the European Union.

Whilst the UK has been a member of the EU, Scotland, Wales and communities across the UK have benefited from these funds. It is deeply regrettable that our respective nations will lose out on this much-needed funding should the UK exit become a reality.

We are continuing to develop our own thoughts on the replacement of the funds and how this might operate in Scotland. At this stage, we are not in a position to share our proposals on the details of the principles, allocation or operation of future funding. however, with regard to general principles, we would emphasise that:

- Scotland should not lose out financially compared to the current level of funding it receives from the EU, which is worth approximately £700 million through ESF and ERDF alone.
- The devolution settlement must be respected and there must be no attempt by the UK Government to take back powers that the Scottish Government has rightfully executed to date.
- The Scottish Government's role in the development of Shared Prosperity Fund should be as partners, not merely consultees.
- The current level of flexibility of allocation of funds should not be reduced under post-Brexit funding arrangements.
- The replacement should be operational from 1 January 2020 in order to be implemented in early 2021 so that our stakeholders do not suffer any difficulties due to funding gaps.

My ministerial colleagues and I have continually pressed the UK Government to engage and provide more clarity on the SPF. These approaches have included when I met with Lord Henley, Parliamentary Under-secretary, BEIS last summer; through the Joint Ministerial Committee (Europe); and more recently when Derek Mackay, Cabinet Secretary for Finance, Economy and Fair Work, wrote to Philip Hammond, Chancellor of the Exchequer, in advance of the 2019 Spring Statement. Alongside this, officials have engaged with counterparts in the Welsh European Funding Office, Northern Ireland and UK departments. As part of their informal consultation, UK Government held stakeholder events in Dundee, Edinburgh, Inverness and Glasgow, which Scottish Government officials attended.

As the Cabinet Secretary stated in his letter prior to the Spring Statement, the UK Government's engagement on the matter of the Shared Prosperity Fund has so far not been meaningful. Along with Ministerial colleagues and officials, I am continuing to seek clarity from them so we can provide our stakeholders with the answers they require. We are starting to progress our thinking around scope and to develop our own plans and priorities for the use of the replacement European programmes, to ensure that these best suit the future needs of Scotland.

You have my consent to publish this letter, and I look forward to hearing about any further action taken as a result.

IVAN McKEE

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

From the President, Councillor Alison Evison

15 May 2019

Mr. David Rees AM
Chair of External Affairs and Additional Legislation Committee
National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

Dear Mr Rees

Proposals for a Shared Prosperity Fund

Thank you very much for your letter of 2 May 2019. COSLA has been closely following the various proposals made by your Committee regarding the UK's exit from the EU, so I am delighted to be given the opportunity to engage with you directly. This builds from the regular contacts that exist between our respective officers and indeed the cooperation between COSLA elected members and AMs in the EU Committee of the Regions.

The replacement of EU Funds, of which the UK Shared Prosperity Fund is one element, is a matter of significant importance for Scottish Local Government and COSLA. This is both in terms of ensuring that the €1.8bn of EU regional, social, rural and maritime fund budgeted for 2020 are fully spent regardless of the terms of the UK's exit, and also in terms of ensuring their replacement by domestic funds. As well as the continuation of a range of international cooperation programmes, namely INTERREG, for which I understand that your Committee has been the first and, so far, only UK legislative body to champion.

We have been involved in, and facilitated, discussions with both Scottish Government and Scotland Office on the replacement of such funds, together with making various representations to DExEU and other UK Ministers. I provide below an overview of the submissions and evidence we have provided to various Scottish and UK Parliamentary Committees.

COSLA priorities for the replacement of EU funding:

- Scotland-based (and Wales, Northern Ireland and England-based)
- Central/Local Partnership
- Commitment beyond a single parliamentary term
- Available funds at least commensurate with existing EU funding allocations

- Focused medium to long-term objectives relating to inclusive economic growth and wider societal/international goals (Scotland's National Performance Framework/ Sustainable Development Goals)
- Targets territorial inequality and opportunity, urban and rural
- Provides a single pot of funding
- Does away with existing cumbersome EU audit and reporting rules using instead existing domestic arrangements
- Opts into territorial cooperation programmes with EU (INTERREG)

Ahead of the start of the 2014-2020 EU Budget, COSLA successfully negotiated with the Scottish Government and secured agreement that around one third of funding and spend on the so-called strategic interventions (thematic funding partnerships) would be led by the Local Government sector (e.g. Local Authorities, Business Gateway, Business Loans Scotland, Community Planning Partnerships).

While the Treasury and Scottish Ministers (and more formally the Withdrawal Agreement with the EU) have guaranteed that current EU allocations running until 2020 (in practice to 2023) will be honoured, even in the event of a no deal, there has been limited scoping of the post-withdrawal UK and Scottish polices to replace these EU programmes.

These funds are not, and never have been, a matter of mere financial transfer. Unlike existing domestic schemes such as block grants or city deals, they provide a clearer focus on long term planning, partnership working and financial certainty beyond a single parliamentary term. Their disappearance would be negative for the overall policy landscape in Scotland and the rest of the UK.

As you know, the general understanding is that the UK Shared Prosperity Fund is meant to replace part of the Structural Funds, and COSLA has provided support for a range of stakeholder roadshows by the UK Government. COSLA remains concerned though that this Fund could be more centralised at UK level than the EU Structural Funds have ever been.

COSLA is keen that new funds to replace the EU Structural Funds should keep at very least the same level of devolution to Scotland that is currently the case with EU funds.

The replacement of EU funds should focus on a narrow range of key priorities such as increased skills or employability, entrepreneurship and be aligned with the Scottish Government and, importantly, local or regional (Highlands and Islands, South of Scotland in particular) economic development strategies. In so doing, replacement EU funding should continue to meet international commitments such as the United Nations Sustainable Development Goals that both COSLA and the Scottish Government have agreed to mainstream via Scotland's National Performance Framework.

Rural Development

At present only 5% of EU rural funding in Scotland is spent on activities that are not farm related. The Scottish and UK Farming Bills do tackle the issue of farming support post Brexit, but we are concerned that this little support for rural community empowerment (LEADER) will be even more diminished. The same could be said for continued support for coastal communities' diversification and regeneration.

European Territorial Cooperation (INTERREG)

The UK has already formally proposed, and the EU has accepted in principle, that the UK could opt into some EU cooperation programmes such as Erasmus or Horizon Europe research projects. COSLA strongly welcomes this. However, for the programme that is more directly relevant for local authorities, INTERREG, the UK has not yet confirmed that it wishes to opt in. This is despite the EU already formally proposing that the UK could be eligible (as non-EU countries such as Norway or Iceland). COSLA has consistently made a positive case for it to the UK Government, and also were instrumental in the adoption of the CoR and European Parliament mandates on INTERREG 2021-2027. We will continue to press the UK Government to allow participation.

In that regard, we welcome the fact that the National Assembly for Wales has been the first and so far only legislature explicitly calling on the UK to at least confirm it is open to opt into INTERREG to allow local authorities to participate in the next 2021-2027 funding period.

I hope this overview provides helpful in explaining Scottish Local Government's position.

COSLA would be happy to continue dialogue on this and other Brexit related issues. For instance, your Committee has been the first to formally support the creation of an UK-CoR Joint Committee that would replicate the functions of the Committee of the Regions, thus allowing Councillors, MSPs, AMs and MLAs to continue cooperating with their EU counterparts beyond Brexit. We have been lobbying for this and would welcome the opportunity for discussion with your Committee to come to a shared understanding across the nations and regions of the UK on how this new body should work.

Yours sincerely

Alison Evison

Councillor Alison Evison
President

FROM THE PERMANENT SECRETARY
Noel Lavery

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David Rees AM
Chair of the External Affairs
and Additional Legislation Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

Our Ref: SCOR-0207-2019

21 May 2019

Dear David,

UK SHARED PROSPERITY FUND

I refer to your letter of 2 May 2019, seeking the views of the Department for the Economy on the development of the UK Shared Prosperity Fund (UKSPF), the UK Government's proposed replacement for the European Structural and Investment Funds (ESIF).

The Department for the Economy is working in conjunction with a number of other departments on the development of the Northern Ireland element of the UK Shared Prosperity Fund, most notably the Department for Finance and the Department of Agriculture, Environment and Rural Affairs. David Sterling, Head of the Northern Ireland Civil Service has previously written to Melanie Dawes, the Permanent Secretary of the Ministry of Housing, Communities and Local Government outlining the Northern Ireland position in relation to the development of the UKSPF.

The lack of meaningful engagement with Northern Ireland authorities on how the Fund will be developed and how regional shares from the Fund will be determined and allocated remains a concern. You will be aware that MHCLG has undertaken a series of local stakeholder engagements in all of the devolved administrations – 5 events were held in Northern Ireland. Our primary concern remains that the focus of these consultations involved matters that reside within the sphere of devolved responsibilities. UK Government officials indicated that the SPF is seen as a mechanism to address the needs of the UK Industrial Strategy. Industrial policy is, however, a devolved matter and the planned approach cannot be taken here. We currently have a draft Northern Ireland Industrial Strategy and our view remains that it is inappropriate for Whitehall departments to focus on activities that support the UK Industrial Strategy and not on local needs here.

In light of this, we continue to press for meaningful engagement on the Fund to agree understandings on matters such as devolved competencies and the development and disbursement of the Fund.

Finally, you will wish to be aware that in the absence of a Northern Ireland Executive, this letter has been drafted by officials and has had no political input.

I am sending copies of this letter to Sir Jonathan Stephens NIO, Melanie Dawes MHCLG, David Sterling, Head of the Civil Service (NI), Sue Gray DoF (NI) and Denis McMahon DAERA (NI). I note that you have also written to the Northern Ireland Local Government Association and I am therefore sending a copy of our response to Derek McCallan NILGA.

Yours sincerely,

Noel Lavery

NOEL LAVERY
Permanent Secretary

northern ireland
local government association

the voice of local government

David Rees AM
Chair of the External Affairs and Additional Legislation Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

23rd May 2019

Dear David,

Thank you for your letter of 2 May 2019 relating to the future Shared Prosperity Fund. NILGA is grateful for the opportunity to respond to the Committee on this matter of pressing national and regional significance.

As you are aware, the continued uncertainty around Brexit and its aftermath is preventing councils from planning for and preparing for investment opportunities post Brexit. We believe the Shared Prosperity Fund has the potential to deliver transformative investment in local areas, but the delay in the consultation process is hampering local planning, both financial and in community / infrastructure terms. The delay risks a scenario whereby the replication of existing silos is the easy option for Government departments.

In terms of the questions posed in your letter, we would make the following comments:

What are the principles that should underpin the new UK Shared Prosperity Fund?

NILGA sees the introduction of a replacement for EU funding as a once in a generation opportunity to put in place a distinctive - primarily locally devolved - fund to achieve inclusive growth outcomes that benefit future generations. The 2017 Conservative Manifesto said that *"we will use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations."* To ensure this is delivered, NILGA believes the following principles should underpin the new UK Shared Prosperity Fund (SPF):

- The primary objectives must guide **place-based growth** in all four nations of the UK and encourage **convergence** between the four nations.
- Current funding levels should be **ringfenced.** No nation should be worse off, either proportionately or numerically – the allocation under SPF should either match or exceed current funding levels.
- **Local design & local delivery** must be the starting and finish points – using community wealth as a generator / gauge of economic development to enable local decisions and deliver local outcomes aligned with the industrial strategy, local economic development strategies and local community plans will deliver the best outcomes.
- **Flexibility** around the make-up of match funding in order to introduce more innovative funding packages at council level.
- Additional weighting should be given to regions most negatively impacted by **Brexit** – both economically and socially.

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- **Cross-border cooperation** between Northern Ireland / Ireland and between Ireland / Wales should be able to continue through funding from the new SPF.
- **Additionality** – the SPF should be a replacement for reduced budgets within government departments, i.e. schemes which are already or should be funded by central government or devolved administrations should continue to be so. Instead it should allow local government to deliver outcomes which meet government programmes (devolved or national) and to meet the overarching Sustainable Development Goals.
- **Simple application & administration processes,** avoiding fragmentation of funding and ensuring coherence with mainstream programmes.

How should funding allocations be made as part of any future fund?
NILGA asserts that Northern Ireland should receive a share of the funding that sees no decrease in the 2014-2020 baseline and is based on allocation methods consistent with EU distribution methods to address inequality between regions. Councils, as convenors of place and leaders of regional growth initiatives must be allocated a share of this funding to foster growth and reduce disparities at a local level.

How should any future fund operate to take account of the different devolved settlements across the United Kingdom?
A replacement fund for EU Funding should continue to address regional disparity in order to encourage convergence among regions, enhance local places and support local people. In 2017, the UK Prime Minister stated there would be no dilution of the devolution arrangements as a result of Brexit and NILGA insists that this commitment is upheld.

Under the devolution settlement in Northern Ireland, European funding, economic development, employment and skills, agriculture, housing, environmental issues and transport are all devolved matters. NILGA firmly maintains that a replacement for EU funding should continue to be a devolved matter as it would undermine the devolution settlement in Northern Ireland. But this devolution should not stop at Stormont. Local devolution to council level offers the greatest opportunity to generate community wealth as neighbourhood-based organisations can be directly involved in priority setting through the community planning process.

We suggest that UK government could set the **broad high-level policy guidelines** for the Shared Prosperity Fund in close consultation with the devolved governments across the UK. In the ongoing absence of the Northern Ireland Assembly, the Central – Local Government Forum (which has been brought together by NILGA) should be tasked with providing the local input and scrutiny in the engagement process to determine the broad guidelines.

Detailed guidelines for the operation of the fund in the devolved nations should then be agreed between regional and local government, taking into account regional strategies, council community plans and local economic strategies.

What engagement have you had with the UK Government in relation to the UK Shared Prosperity Fund?
NILGA is disappointed at the lack of engagement with UK Government to date. We responded to the All-Party Political Group call for evidence in September 2018 and were invited to pre-consultations that the Ministry for Housing Communities & Local Government held in Belfast in

January 2019. MHCLG officials and Northern Ireland Office officials were also sent copies of our response to the APPG.

While we have requested clarification on the content of the consultation and the timeframe, we remain frustrated at the lack of detail. We are now in a position that the longer this uncertainty continues, there is a risk that councils and partners will not have been able to prepare for and implement a new programme, or to continue within the EU funding frameworks. While the funding scenario remains undecided, there is also a major risk that projects, businesses and partners will cease to exist.

We are particularly concerned that in the ongoing absence of the NI Assembly, the needs and concerns of Northern Ireland's councils and other stakeholders are not being heard or understood in Westminster. Any dialogue which may or may not be taking place with civil servants does not have political buy-in at any level.

NILGA remains the only all-party political voice for Northern Ireland and we will continue to raise all issues which affect local government as a result of Brexit with DEXEU, MHLCG and other relevant departments in Westminster along with our sister organisations of the WLGA, COSLA and LGA.

Are there any other issues in relation to replacing ESIF funding after Brexit that you would like to bring to our attention?

Lack of coordination between funding streams creates fragmented funding applications whereby organisations shape the project to suit the funder's requirements. A single funding pot with standard criteria and eligibility rules would reducer complexity in the application, monitoring and evaluation processes, remove funding (and departmental) silos and would make aligning outcomes with overarching devolved and national government programmes (and the Sustainable Development Goals) more straightforward. The current lack of coordination at local level can lead several organisations in one area delivering similar programmes, engaging with the same target beneficiaries and all reporting the same outcomes.

We have worked diligently alongside our colleagues from the Welsh Local Government Association (WLGC), Convention of Scottish Local Authorities (COSLA) and the Local Government Association (LGA) to ensure that local government speaks with one voice on Brexit and we will continue to work collaboratively across the UK. We would welcome the opportunity for further discussion with the Welsh Assembly on how the four nations of the UK can prepare for and prosper after Brexit.

We await with interest the outcome of your research and engagement with organisations across the UK and look forward to ongoing collaboration on areas of mutual interest in the future.

Yours sincerely,

Mr Derek McCallan
Chief Executive

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Fiddes, Claire (Staff Comisiwn y Cynulliad | Assembly Commission Staff)

From:	Gerard Mchugh
Sent:	30 May 2019 06:16
To:	Rees, David (Aelod Cynulliad | Assembly Member); Fiddes, Claire (Staff Comisiwn y Cynulliad | Assembly Commission Staff); Dr Joan Dixon
Subject:	Proposals for a Shared Prosperity Fund
Attachments:	NAW BREXIT COM (1) (1) (1) (1) (2) (1).docx; APPG+report+on+UKSPF.pdf

Dear Chair

I write in response to the invite from The NAW External Affairs Committee for the views of The Industrial Communities Alliance on the Shared Prosperity Fund. These are attached

Gerard McHugh
Welsh Director
Industrial Communities Alliance

PROPOSALS FOR A SHARED PROSPERITY FUND

Submission by the Industrial Communities Alliance to the National Assembly for Wales' External Affairs and additional legislation committee

May 2019

The Industrial Communities Alliance (ICA) is the all-party association of local authorities in the industrial areas of England, Scotland and Wales. The Alliance was formed in 2007 by the merger of the long standing associations covering coal and steel areas, dating back to the 1980s, and it has expanded to cover other parts of industrial Britain.

Its membership in Wales consists of Blaenau Gwent, Torfaen, Merthyr Tydfil, Caerphilly, Rhondda Cynon Taf, Neath Port Talbot, Bridgend, Carmarthenshire and Powys.

The Alliance welcomes the opportunity to contribute to the Committee's consideration of the replacement funds for the European Structural Investment Funds (ESIF) , necessary as a result of Brexit.

The ICA has given considerable consideration to this issue. It provided evidence to The National Assembly for Wales Finance Committee, which produced a report entitled: *Preparation for replacing EU funding for Wales* (September 2018).

It also provides the Secretariat for the All-Party Parliamentary Group (APPG) on Post Brexit Funding for Nations, Regions and Local Areas.

The ICA also produced its own proposals for the replacement of EU funding: *Post-Brexit regional policy* (Spring 2018).

The Alliance Wales responses to the questions posed by the National Assembly for Wales' External Affairs and Additional Legislation Committee are submitted below.

Q1. What are the principles that should underpin the new UK Shared Prosperity Fund?

For more than thirty years, the EU has been at the heart of regional development in the UK. The EU Structural Funds – principally the European Regional Development Fund and the European Social Fund – have co-financed a vast range of initiatives to promote regional economic growth. In the present EU spending round (2014-20) the UK is set to receive a total of £9bn from the Structural Funds, or around £1.3bn a year. Wales receives £2.1bn – a reflection of the top-priority status of West Wales & the Valleys – and Scotland just under £800m.

- Set the new Fund's budget at a level that not only compensates for the loss of EU funding (£1.5bn a year) but also provides **additional resources** to match the scale of the challenge

- In terms of Wales, any future allocation should not be any less than the current sums in real terms and adjusted to take account of inflation. The allocation of UKSPF should be determined **outside of the Barnett Formula**.

- Structure the new Fund in ways that provide support more efficiently, more flexibly and with more **local authority control**

- Allocate the new Fund in fair and transparent ways that give priority to the development needs of **less prosperous regions** and local economies

- Reform the rules on financial support to companies to enable the delivery of **more effective support** in the places that need it most

- Exploit the opportunity provided by this major revision of regional policy to **align a wider range of public spending** with the priority of local and regional economic development

Q2. What are your priorities in terms of how the UK Shared Prosperity Fund should operate?

With the impending disappearance of the EU Structural Funds there is a massive gap to be filled.

- The new Fund needs take over the present-day responsibilities of EU regional aid and continue to finance a wide range of initiatives to promote growth and jobs in Britain's less prosperous areas. Like the EU funds it replaces, it should do this primarily by co-financing schemes supported by local partners but, exploiting the flexibilities provided by Brexit, it should also be able to wholly-finance projects where appropriate.

- The new Fund should be a budget line set by the UK government in London but managed on a devolved basis.

- In Wales, the relevant share of the new Fund should be a payment to the devolved administrations over and above the monies due via the Barnett formula. This is the arrangement that currently applies to EU funding and ensures in particular that Wales receives a significantly higher share of the pot, reflecting its needs, than if the normal Barnett formula had applied.

- The new Fund needs to be fully operational from January 2021 so that there is no hiatus in support for the regions. Working back, that means new regional plans and priorities need to be in place in 2020 and, in turn, the architecture of the new Fund needs to be sorted by the end of 2019.

Q3. How should funding be allocated as part of any future fund?

There is no reason however why the new Fund's budget should remain tied to EU formulas. The UK suffers from large and widening disparities in prosperity. Brexit and the re-focussing of government policy on the places and people left behind provide the opportunity for a step-change in spending on regional development, allowing substantial additional activity and impact.

In the longer term, the scale of funding might be linked to the on-going scale of **UK regional disparities.**

Like the EU funds, the new UK Shared Prosperity Fund should operate on the basis of multiannual financial allocations, which create certainty, foster stability and allow the proper planning of ambitious projects.

The Alliance Wales would like to see more efficient, more flexible support with more local authority control

There in general agreement that the rules associated with EU funding have been excessive.
In establishing the new UK Shared Prosperity Fund there is the opportunity to introduce greater simplicity and effectiveness whilst maintaining transparency and accountability:

The division between ERDF and ESF funding streams reflects structures in Brussels but it does not make much sense on the ground to separate off economic development from skills. The division should be scrapped. Support for rural economic development – historically managed separately – might also be integrated.

EU funding has increasingly been linked to narrow thematic constraints such as the green agenda and R&D, especially outside 'Less developed' regions – in other words across all of England apart from Cornwall, the whole of Scotland, and all of Wales apart from West Wales & the Valleys. These thematic constraints are an obstacle to designing interventions that reflect local needs and should be scrapped.

EU funding has been associated with labyrinthine bureaucracy – national and local programming, pre- and post-evaluation, over-detailed targeting, lack of flexibility and pedantic auditing.

There is an opportunity to greatly simplify the management of regional aid. There is also the opportunity to tailor the new UK Shared Prosperity Fund more closely to domestic priorities. That might mean, in particular, ensuring that regional development and industrial strategy work in harmony.

An integral part of the management of the new Fund should be effective local control. Local authorities are most closely attuned to local needs and should take the key decisions about spending priorities. In Wales, where there is the intervening layer of the Welsh assembly Government, local authorities need to be fully integrated into the Fund's management. There should be a new emphasis on decision-making by local authorities.

Britain's older industrial areas have a pressing need for investment in skills and training, which points to the need to maintain the activities currently financed by the European Social Fund. The introduction of new technology, in particular, poses challenges across many occupations and industries. Some local areas have pressing infrastructure needs. Others need support for business development. The balance of spending should be for local partners to determine.

Q4. What level of devolution should there be from the UK Government in respect of managing the UK Shared Prosperity Fund?

Within Wales, the local allocation of the new Fund should be a matter for the devolved administration in collaboration with local government.

An integral part of the management of the new Fund should be effective local control. Local authorities are most closely attuned to local needs and should take the key decisions about spending priorities. In Wales, where there is the intervening layer of the Welsh Assembly Government, local authorities need to be fully integrated into the Fund's management. There should be a new emphasis on decision-making by local authorities.

Q5. What engagement have you had with the UK Government in relation to the UK Shared Prosperity Fund?

Since the 2016 referendum, the Alliance has been aware of the impact that the loss of EU Structural Funds could have on UK-wide regional policy. EU Structural Funds have been a major source of funding for economic development in older industrial Britain. Realising the gap that might be left, the Alliance produced its own policy document on Post-Brexit Regional Policy making the case for a replacement.

Following the commitment in the 2017 Conservative Manifesto to create UKSPF, in September 2017 the Alliance Secretariat began a series of meetings with relevant BEIS and CLG officials to take stock of current thinking and to try and influence the fund's development. The document on Post-Brexit Regional Policy was twice updated and shared with them.

Following on from this, the Alliance made a formal approach to the Chancellor and the Secretaries of State for Business and for Communities in October 2017. This laid out the Alliance's proposals for Post-Brexit regional policy, including UKSPF.

In early 2018, the Alliance produced a briefing note on the potential allocation of the UKSPF. This was followed up with meetings with the relevant BEIS and CLG officials.

It was about this time that the Alliance worked with Stephen Kinnock to form the APPG Post-Brexit funding for nations, regions and local areas as a channel to influence government thinking. The APPG launched an inquiry into what key players around the country would like to see of the new UKSPF.

The report was published in November 2018 and fed into government. Around the time of its publication, the Alliance Secretariat met with the inter-departmental team working up the proposals for the UKSPF and shared with them the report.

As a result of the APPG report, Stephen Kinnock and the Alliance Director met with BEIS Minister Richard Harrington in January 2019 to discuss the report's recommendations.

The Alliance Secretariat has also met with CLG officials to discuss potential allocation formula.

Through the APPG, the Alliance has also attended meetings with Secretary of State for Wales Alun Cairns and Chief Secretary to the Treasury, Liz Truss.

In short, the Alliance has sought to engage both Ministers and civil servants over a prolonged period.

Q6. Are there any other issues in relation to replacing ESIF funding after Brexit that you would like to bring to our attention?

The Alliance Wales proposes better rules on financial support to companies.

The EU rules on aid to companies have become unduly restrictive, obstructing financial support towards the cost of projects that create or protect jobs in less prosperous areas.

Whilst the extent to which EU State Aid rules will continue to apply to the UK remains uncertain, it would be helpful for the UK government to aim to deliver a post-Brexit framework that addresses the shortcomings of the present rules:

The scale of support allowed in the UK should reflect the scale of regional disparities in the UK.

Aid intensity ceilings should be set at levels that are sufficiently high to make a difference to company decisions.

A higher 'de minimus' ceiling on aid requiring official notification would increase the flexibility to support smaller firms in particular

Investment aid to companies is an important tool of regional policy and complements spending on infrastructure, skills and R&D. It needs to be properly policed to ensure 'additionality' (that it is only given to projects that would not otherwise have gone ahead) and to ensure fair competition, but Brexit provides an opportunity for significant improvement.

Getting the post-Brexit rules right is the first step. What the Westminster Government and the devolved administrations then need to do is ensure that funding streams are in place to take advantage of the rules and deliver the financial support that is needed. Within reasonable limits, the UK should be able to support firms in its own regions with its own money.

The Alliance Wales proposes aligning a wider range of public spending with post-Brexit regional policy

The reform of UK regional policy in the wake of Brexit is fundamental. With radical change unavoidable, it is worth seizing the opportunity to design a more comprehensive approach to promoting development in Britain's less prosperous areas.

Confining regional development to a 'silo' lessens its effectiveness. For too long, regional policy has been treated as the responsibility of a couple of Westminster departments and their opposite numbers in Edinburgh and Cardiff. This has led to unacceptable outcomes. It has meant for example that per capita spending on transport in London and the South East has stayed far ahead of the level in other regions, and that promotion of the UK's science base has ended up favouring places like Oxford, Cambridge and London.

The whole of government needs to take responsibility for regional development. This means subjecting a wide range public spending to scrutiny in terms of its impact on local and regional growth.

A manifestation of the silo approach has been the perpetual struggle to find adequate matching finance to go alongside the EU contribution to projects. The quality and effectiveness of projects has been compromised because too often they have been given the go-ahead not because they offer the best results but because it is possible to cobble together matching finance. In particular, cash-strapped local authorities in Britain's older industrial areas have been frozen out.

Aligning a wider range of public spending with post-Brexit regional policy would deliver a quantitative and qualitative boost to its effectiveness.

CORNWALL COUNCIL
one and all • onen hag oll

David Rees AM
Chair of the External Affairs and Additional Legislation Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

4 June 2019

Dear Mr Rees

Input from Cornwall Council to Welsh Assembly examination of the UK Shared Prosperity Fund

Thank you for this opportunity to give input to your important examination of the implications of Brexit for Wales and in particular the UK Shared Prosperity Fund (UK SPF).

Cornwall and Wales share a common Celtic culture and language and our economies have many of the same characteristics and indeed face similar opportunities and challenges. It is therefore no surprise that we have a history of co-operating and learning from each other and I am very pleased with this opportunity to continue our close working relationship. As you may be aware, the Welsh LGA organised a visit to Cornwall in January 2019 to exchange views and intelligence on local government Brexit preparedness, including the UK SPF. The report from this visit is available here. This visit was timely and extremely helpful in terms of furthering our preparedness work and in terms of identifying areas of joint concern. A direct follow-up from this visit was a joint statement on the UK SPF from leaders across the Less Developed regions in the UK, including leaders from Cornwall and Wales. The joint statement and the ministerial response can be found here.

We would like to reciprocate the Welsh visit to Cornwall and your examination of the UK SPF may provide a timely opportunity to organise a Cornish delegation to Wales in order to discuss the important issues of Brexit and the UK Shared Prosperity Fund (SPF) further.
Turning to the specific questions that you have raised, we would like to give the following input;

1. **What are the principles that should underpin the new UK Shared Prosperity Fund?**
   Overall, Cornwall wants to see an ambitious regional policy for the UK that recognises the need for a specific mechanism for those regions furthest behind. We want to see a clear guarantee that UK regions will not be worse off in terms of the funding available for regional development beyond 2020 because of our leaving the EU. We want to see a protected allocation of funds to the regions with greatest need in the UK that will allow for a genuine rebalancing of the UK economy.

   Therefore we want to see a UK Shared Prosperity Fund that is adequately funded and which at least matches the €13 billion that UK regions would have received under the next EU programme. This funding must be in addition to existing national local growth funding that under current EU programmes is often used as match funding.

We also want to see a UK Shared Prosperity Fund that is appropriately devolved, respects devolution where it has already happened and gives a clear a commitment to continuously place responsibility for decisions as close to citizens as possible. We will not accept any roll-back on devolution as we believe that the centralisation of UK economic policy and funding decisions is one of the main drivers of regional inequality.

The UK Shared Prosperity Fund should learn from the experience of EU programmes and the problems related to bureaucratic processes and seek to significantly reduce the administrative burden for applicants.

We believe the development of the new Shared Prosperity Fund should be driven by some core principles, including:

- ✓ **Multi-year funding:** A multi-year regional allocation (ESIF is currently 7 years), focused on an agreed set of people and place based outcomes.
- ✓ **Place-based single pot:** A single pot programme as the most efficient and effective way to achieve an integrated approach to economic development and growth.
- ✓ **A programme design focused on local accountability:** that builds on Intermediate Body status as this will ensure that it is more easily accessed by local beneficiaries and is owned and recognised by stakeholders and partners.
- ✓ **Measurements of success to be linked to the quality of outcomes achieved:** in order to ensure a whole system approach to sustainable and inclusive economic growth.
- ✓ **Adopt an inclusive growth approach:** to the delivery of the UK SPF as this will help to rebalance the economy and deliver shared prosperity
- ✓ **Flexible Funding:** The funding should be flexible enough to be used holistically: for both capital and revenue purposes.
- ✓ **Locally driven:** The fund should be locally driven, with priorities being set by the local areas and organisations that understand community needs the most

2. **What are your priorities in terms of how the UK Shared Prosperity Fund should operate?**
The overall priority for us in terms of how the future UK Shared Prosperity Fund will operate is to ensure that the fund is able to respond to local need and priorities. In order for this to be feasible the following operational priorities needs to be in place;

a) A single pot with an allocated budget for each region that is not less than UK regions would have received from EU funds

The SPF must commit to "no area being worse off as a result of Brexit". This entails that the UK SPF must operate via predetermined allocations to regions based on need. This will enable long term planning for regions and also ensure that the SPF is targeted to where need is greatest. The UK SPF should at least equal what Cornwall and the Isles of Scilly (CIoS) would have been allocated from the future EU budget. As a Less Developed region we estimate that ESIF funds will be worth approximately £600 million for Cornwall and the Isles of Scilly in the 2021 to 2027 period. This figure does not include match funding in the form of growth deal funding from the UK government. An economic development spend of at least £100 million a year, including match funding over the coming 7 year period is a level of activity considered essential to improve our long term economic performance. The CIoS economy has not sufficiently caught up with the rest of the UK. Higher per capita funding is essential to continue our economic journey to ensure that we can contribute to delivering the UK Industrial strategy, and to ensure a rebalancing of the UK economy.

The funding allocated to regions must be flexible and operate as a single pot, where we avoid replicating the silo and demarcation issues that exist under the current EU programme. This is to ensure that we overcome the current situation where is it extremely difficult to blend money from ERDF, ESF, EAFRD and EMFF creating barriers to establish holistic programmes that for example includes a capital element (building of workspace) and a skills wrap-around element that is aimed at ensuring that the local population is able to take up new job opportunities created. Local flexibility is important as a centralised one-size-fits-all blue-print will not deliver on the promise to rebalance the UK economy. A rural and coastal region such as Cornwall and the Isles of Scilly has distinct challenges and opportunities. Activity should be developed and selected at local area level, within the overall programme objectives of economic growth and convergence and the priorities set out in the Local Industrial Strategy. Local flexibility and control should be balanced by ring-fencing funding at a national level for certain activities such as economic inclusion and rural focussed delivery, bottom-up community level programming, and programme management and strategic oversight in local areas.

b) A SPF that operates on a multi-annual (10 year) basis giving local areas flexibility to determine how best to spend funds based on local accountability and decision making. Building on existing devolution including Intermediate Body (IB) status.

The SPF should operate over a minimum period of 7 years, with a further 3 years for project completion. The SPF operational timeframe should be independent of political cycles. It is also important that the programme aligns with the investment programme periods set out in Local Industrial Strategies. This would mean:

- Those responsible for programming and projects have the certainty to make long-term strategic decisions and plan ambitious projects.
- Sufficient time is available to address the long-term, structural drivers of deprivation and poor economic performance, and to realise the benefits of well targeted interventions.
- Greater private sector confidence and longer-term investment approaches.
- Less upheaval, delays and loss of confidence that often accompanies short term delivery, changes in government, etc.

There can be no roll-back of devolved responsibly which areas such as CIoS have been given through Intermediate Body (IB) status. Rather IB status should be a key building block for the future UK SPF. A programme architecture focussing on local accountability within a national framework, expanding on existing Intermediate Body[1] arrangements will mean that it is owned by local stakeholders. It is important to stress that the degree of local decision making is as important as the budget amount allocated to a region. Over the past 20 years we have experienced the structure of successive EU programmes move away from local decision-making towards centralisation of the programme. For Objective One, all four funds were in a single programme for CIoS. This changed dramatically for the Convergence programme, where there was a local ERDF programme, a separate chapter for CIoS 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

[1] Cornwall and the Isles of Scilly is one of 11 areas in the UK that have Intermediate Body status, giving greater powers to set the criteria for any EU funding applications which would otherwise be done in Whitehall. Each intermediate body operates differently and has different levels of autonomy, with three levels of autonomy, including the Greater London Authority model with greatest control over funds, Mainstream with a modest level of control, and Sustainable Urban Development Strategy (SUDS) with a lower level of responsibility.

strategies and CIoS had to fight hard for an Integrated Territorial Investment and Intermediate Body status. In this context it is important to state that we do not see IB status as the gold standard, but as the bare minimum level of local decision-making from which we want to build further devolution and accountability.

c) **Success measures are focused on outcomes achieved rather than just outputs delivered**

It is vital that the SPF takes account of the lessons from EU funding programmes, particularly the need to focus on holistic outcomes rather than narrow outputs. This should prevent the development of projects which fit the outputs permitted within the funding scope, but fail to deliver meaningful outcomes. The potential negative consequences of particular interventions should also be captured. It is important that the long term economic, social and environmental impact of the programme in specific areas is evaluated. The programme should make funding available for research and evaluation at project level, to secure community buy-in and ownership, and communicate the impact. A set of meaningful and comparable outcome indicators should be developed.

d) **Adopt an inclusive growth approach in order to ensure that the economic benefits of growth are shared across society**

In order to deliver on its promise to rebalance the economy, the UK SPF has a clear operational focus on addressing inequality between areas by driving investment to those areas with the greatest need thereby unlocking the full potential of all regions in the UK. The SPF should also allow regions to focus on inequality within their region. Central to this is a focus on inclusive growth to ensure that the benefits of growth are felt by all within our local community. This may mean that improvements to productivity are not always the primary outcome that the SPF seeks to achieve and that a longer term view is taken to invest in human and environmental capital in order to ensure that growth is sustainable and delivers prosperity to all communities.

3. **How should funding be allocated as part of any future fund?**

Cornwall and the Isles of Scilly believe that the starting point for any discussion around allocation of funding must be a commitment that no region should be worse off following Brexit. The purpose of the SPF is to rebalance the economy and special consideration should therefore be given to the regions facing the biggest challenges. By this we mean that funding to regions should be allocated based on need, with those regions with the greatest challenges allocated the highest per capita funding. While there are different ways of measuring need ranging from the current EU methodology of GDP per capita, to productivity measures (e.g. productivity per hour worked), to a composite measure of need, we believe that in order to ensure that the UK SPF is implemented in a timely way and provides essential continuity, this allocation should initially be based on GDP per capita, with a longer term view to develop and test an allocation methodology which remains based on a simple and transparent allocation methodology and includes more inclusive measures closely linked with the programme's outcome measures. Another key improvement that the UK SPF should seek to achieve is to avoid cliff-edge funding changes when regions 'graduate' from one category of regions to the next. At the moment, the funding change implication of graduating from being a Less Developed region to a Transition region is significant and entails a risk of progress being reversed. The table below shows the approximate per capita funding for UK regions in the 2014-20 ESIF programme.[2]

Area type	**GDP as a % of the EU average**	**Average per capita allocation** *
Less Developed	< 75 %	£ 879
Transition	75 % - 90 %	£ 167
More Developed	> 90 %	£ 95

* Actual allocations are set in €, but using the current ERDF exchange rate of £1 = €0.9 this equates to the stated sterling value.

Another important issue to be included in considerations around the allocation mechanism is rurality. To achieve the overall objective of rebalancing the UK economy, the Shared Prosperity Fund must recognise the large variations in prosperity and opportunity between and within different areas. In particular, rural areas outside the influence of a city region require greater support. Research commissioned by Defra indicates that businesses in rural areas outside of city regions do not have the same access to labour market opportunities and skills, and lack opportunities for investment and innovation.[3] This same conclusion was repeated in the House of Lords select committee report "Time for a rural strategy"[4]. For this reason, the allocation methodology should be weighted by an area's rurality and peripherality to reflect the additional delivery costs associated with low population density and distance from large urban centres. As well as taking in to account the additional challenge face by rural areas, the future UK SPF must also make dedicated funding available for agricultural and fisheries activities. The EAFRD and EMFF have provided important funding streams for CIoS and we would be worried that funding for agricultural and fisheries activities would get lost in an overall UK SPF unless funding for these specific purposes where ring-fenced at a national level within the overall SPF programme.

The SPF should not be a competitive programme, as this would not support its overarching objective of rebalancing the economy. Competition is useful as part of a "Challenge fund" approach to pilot interventions, but it should constitute only a small share of the SPF budget. Wider use of competitive allocation would mean funding is concentrated in more affluent, urban areas that can deliver the best value for money in terms of outputs and outcomes. This scenario would limit the impact on areas outside of city regions, which often lack the critical mass required for national competitions.

4. **What level of devolution should there be from the UK Government in respect of managing the UK Shared Prosperity Fund?**
   We believe that the UK SPF should be used to devolve funding and decision-making to local areas. At a very minimum there can be no roll-back from devolution already afforded to regions and devolved administrations. This includes Intermediate Body (IB) status which Cornwall and the Isles of Scilly along with 10 other regions in the UK have been granted,

[2] 2014, BIS, EU Structural Funds Allocations in the UK for the Period 2014-2020
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/307562/bis-14-773-eu-structural-funds-uk-allocations-2014-to-2020-equality-impact.pdf
[3] DEFRA, 2006, Economic performance of rural areas inside and outside of city regions
http://randd.defra.gov.uk/Default.aspx?Menu=Menu&Module=More&Location=None&Completed=0&ProjectID=15239
[4] https://www.parliament.uk/business/committees/committees-a-z/lords-select/rural-economy/news-parliament-2017/report-publication/

giving greater powers to set the criteria for any EU funding applications which would otherwise be done in Whitehall. However, we would like the UK SPF to go beyond simply respecting devolution granted to date and take the opportunity to re-calibrate the locus of political power to be closer to the people over whom it governs. The development of the Shared Prosperity Fund is one of the first opportunities to send a strong statement of intent that the centralising tendencies of many past governments will be reversed; that the power, creativity and innovation of our localities will be unleashed in a way that will ultimately benefit the UK as a whole. Only through policy and decision making that is sensitive and responsive to local needs will we start to overcome inequality, and the building blocks for this are already in place in many areas of the UK through the existing 'intermediate body' status that 11 regions of the UK have to administer European funds. We want to see the UK SPF be implemented in flexible manner that will allow us to respond to local need and opportunities in a creative way.

5. **What engagement have you had with the UK Government in relation to the UK Shared Prosperity Fund?**

   Cornwall and the Isles of Scilly have engaged extensively with HM Government on the UK SPF offering to share our experience of more than 20 years of implementing EU funding locally. Our engagement to date has included;

   - Cornwall hosting two pre-consultation events for DHCLG with local stakeholders. The first of these took place during summer 2017 and the second took place on the 12th September 2018.
   - Developing a clear policy position on the future UK SPF as outlined in Catalyst for Change[5] and the New Frontiers[6] publications.
   - Developing of a number of detailed evidence papers on various aspects of regional funding such as the importance of simplification, the risk of gaps between programmes and the importance of an approach that focuses on outcomes rather than outputs (these evidence papers can be shared if of interest to the committee)
   - Engaging with colleagues in government departments including MHCLG, Defra, BEIS and others on an ongoing basis. This has included hosting visits of ministers and colleagues from government departments to Cornwall and participating in numerous meetings and events elsewhere in the country.

   In addition to engaging with the UK Government, Cornwall has worked closely with other regions and local authorities to develop shared positions where possible, including working with Welsh stakeholders on the Less Developed regions campaign.

6. **Are there any other issues in relation to replacing ESIF funding after Brexit that you would like to bring to our attention?**

   In terms of the budget made available to the UK SPF, we find it important to stress that in order for funding to be comparable with what would have been received under EU programmes, the allocated amount must take into account the issue of match funding. Much of the match funding required in order to access EU funding has been provided by the UK Government through the growth programmes and other funding sources. This UK SPF must replace both the EU funding and the associated match funding from Government in order to be comparable.

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[5] https://www.cornwall.gov.uk/media/24227365/catalyst-for-change-brexit-report.pdf
[6] https://www.cornwall.gov.uk/newfrontiers

The funding must, furthermore, be additional to other sources of national funding which have different purposes. The Stronger Towns Fund that was announced during the Brexit negotiations for example has a completely different purpose and Cornwall does not consider this funding as being part of the settlement that will replace EU funds.

Lastly, the importance of taking rurality into account and ensuring that the UK SPF is rural proofed cannot be stressed enough. The additional barriers to prosperity facing rural economies were highlighted in the House of Lords select committee report 'Time for a rural strategy'[7] and this must be given special consideration in an instrument for which the main aim is to rebalance the UK economy.

We have no issues with you publishing our response.

Thank you again for this opportunity to give input and for the continued close co-operation between Wales and Cornwall and the Isles of Scilly.

Yours sincerely
Dhywgh hwi yn hwir

Julian German

Julian German
Leader of Cornwall Council / Hembrenkyas an Konsel

[7] https://www.parliament.uk/business/committees/committees-a-z/lords-select/rural-economy/news-parliament-2017/report-publication/

David Rees AM
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14/06/2018

Dear David Rees AM

Proposals for a Shared Prosperity Fund

Thank you for your letter dated 2 May 2019 inviting the Local Government Association (LGA) to share our views on UK Shared Prosperity Fund (UKSPF). As Chair of the Brexit Taskforce, I welcome the opportunity to reiterate the importance of a domestic replacement for European funding because it is a vital source of investment for councils and combined authorities to invest in local regeneration, employment and skills. We have taken an active role on European funding, ensuring that current funding from the European Structural and Investment Fund (ESIF) is spent locally through our membership of the Growth Programme Board and have been strongly making the case for a localised, place based domestic replacement once we leave the EU. We have worked closely with the WLGA, COSLA and NILGA on making the case for a localised replacement fund, as well as wider issues related to local government preparedness for the UK's exit from the EU. This letter sets out our key lines on UKSPF and the work we have taken to make the case to Government on behalf of the sector.

What are the principle that should underpin the new UKSPF?

The LGA published the 'Beyond Brexit: Future of funding currently sourced from the EU', which called on the Government to replace vital EU regional funding. It outlined the principles that should be included in the design and delivery of the fund. This included the following:

- It should be a **localised, place based fund with locally determined outcomes**. It should respect current local decision making and should be fully devolved to local areas. It is vital that there is no roll back or dilution of any devolution created for EU funding (including for Wales) and should act as a catalyst for devolution in non-metropolitan areas.
- **Bureaucracy, silos and process focused outputs** of current EU funding should be removed in order for the fund to have a maximum impact in communities. To ensure accountability and transparency some form of light touch, central overview should remain in place through one Government department, but the primary focus should be on local decision making.
- **The quantum of funding should be at least the same value** as the current ESIF programme. UKSPF will need to be joined up with the wider local economic and

inclusive growth funding landscape to achieve shared and locally driven outcomes that improve local communities.

What are the priorities of how it should operate?
The priority and objectives of UKSPF should be locally determined. It should be focused on delivering successful and inclusive economies. Local areas have the expertise to deliver this for their communities and this will provide a fresh opportunity for councils to forge new, powerful relationships with Government, business leaders and universities, for the benefit of local residents. It is therefore essential that local government takes a leadership role rebalancing local economies and delivering shared prosperity. In order to do this, local areas need to be free to set the primary objectives of their allocation of UKSPF, in order to reflect the needs and priorities of different parts of England.

It is essential that UKSPF is integrated with wider growth based funding to support the outcomes of wider local economic and inclusive growth strategies to achieve locally driven outcomes. This includes integration with other funding including the Local Growth Fund and any further work with business rate retention and devolved Adult Education budgets. All such funding streams should be working towards the same local economic outcomes. The focus on outcomes will aid the transparency of UKSPF as communities and businesses will be able to see directly the impact the fund will have for their local economies.

How should funding be allocated as part of any future fund?
UKSPF should be at least equal in value to current EU funding streams as it will provide a level of certainty for projects and organisations that are currently delivering outcomes through EU funded programmes. It should be an additional funding stream and should not cover gaps caused by other budget reductions. The formula that should be used for allocation should be a fair and transparent formula.

Any UKSPF announcement should state which funding stream it is replacing to ensure that it is of the same quantum as current EU funding and should not cover gaps caused by other budget reductions.

What level of devolution should there be from the UK Government in respect of managing the UK Shared Prosperity Fund?
UKSPF should respect any devolved decision-making, and fully devolve it to local areas. There should be no removal or dilution of current devolution arrangements, including for funding for Wales. Designing localism and devolution in to the UKSPF, is an opportunity to take devolution further, and deliver a substantial improvement on decision-making powers that were afforded to local areas through ESIF.

The domestic funding structure redesign should support the principle of a bottom up single, place-based fund established around the needs of people, rather than separate institutions. The new fund has to be able to sit within devolved structures and unlock the ability to implement local discretion. A centralised framework can reduce local strategic management and efficiencies, which reduces the ability to deliver outcomes. To ensure

accountability and transparency some form of light touch, central overview should remain in place through one Government department.
Local areas should be at the centre of any funding structure redesign because they have the expertise and ambition to manage any replacement funding. While some areas have been able to put into practice partial local determination of EU funding, all areas have the ability and ambition to manage their UKSPF allocation to support their local residents and businesses.

What engagement have you had with the UK Government in relation to the UK Shared Prosperity Fund?
We have made these points to the Government through:

- EU Exit Local Government Delivery Board
- Growth Programme Board, where Cllr Sir Albert Bore, Cllr Phillip Atkins and (the late) Cllr Ian Stewart have made the case on behalf of local government
- Moving the Conversation On: Brexit Paper at the LGA Conference
- Our response to the APPG on Post Brexit Funding
- UKSPF pre-consultation round tables with a variety of local councils and combined authorities making the case for a localised replacement fund
- Press releases relating to UKSPF and the problematic approaches by central government in managing EU funding.

Are there any other issues in relation to replacing ESIF funding after Brexit that you would like to bring to our attention?
We have continually expressed concern by the ongoing delay to the promised consultation and further detail on the design of UKSPF as local areas are unable to make long term plans and investment decisions. We have been clear that there should be no gap in funding between the end of the 2014-20 programme and the commencement of UKSPF. It is therefore a matter of urgency that the Government works with local areas in allocating UKSPF to ensure there is no gap in funding and no cliff edge for local regeneration, employment and skills programmes.

ESIF has provided the benefit of longevity and stability. The programme is currently allocated over a seven year period, with a further three years allowed for projects to be completed and claims submitted. This is regarded by many councils and combined authorities as a significant benefit for long-term planning beyond normal domestic funding cycles. This approach provides longevity to plan investment for people and places, as well as help to leverage match funding from relevant governmental departments and the private sector. It also provides businesses with consistent long-term support so they can make investment decisions in a planned and logical manner.

European funding has played an important role in local regeneration, business support, employment and skills. However, the design of the domestic replacement is an opportunity to do things better for local communities. UKSPF needs to be a place based, devolved fund that is driven by locally determined outcomes to benefit local places. The LGA will be happy to work with the Welsh Assembly on areas of mutual interest.

Please do get in touch if you need further information or to discuss how we can work together.

Yours sincerely

Cllr Kevin Bentley
Chair, Brexit Taskforce