APPG on Post-Brexit Funding for Nations, Regions and Local Areas

North East Brexit Group Response

September 2018

Introduction

The North East Brexit group brings together key networks representing businesses, education, trade unions, local authorities and voluntary organisations. Its purpose is to monitor economic evidence and the views, experiences and response of business, education and other organisations in the North East Local Partnership area as the UK moves through the Brexit process. In this work our shared aims are to:

- understand potential opportunities and impact areas in the context of the delivery of the North East Strategic Plan
- identify and address relevant support needs of businesses and employees, and interventions to support the regional economy
- ensure that national policy reflects an understanding of the economic structure, ambitions and conditions of the North East.

We welcome the opportunity to submit a joint response to the APPG on Post Brexit Funding Call for Evidence. This paper reflects an agreed position from the North East organisations or the North East teams from national bodies[1]. Individual signatories to this paper may also submit evidence through their own sectoral networks or as membership organisations.

This response has been informed by both the policies within the NE Strategic Economic Plan (SEP) and our delivery experience. The SEP is the regionally agreed economic plan, which provides the current policy framework for European Structural Investment Funds, Local Growth Funding and other investments, and leverages public and private funds. The SEP draws from a comprehensive evidence base about:

- The industrial strengths and opportunities, innovation and wider business growth opportunities within the region
- Infrastructure needs and priorities
- The position with reference to human capital, in particular the size, scope and trends within our population and labour force and the current and future skills position required to fulfil our economic aims.

Overall budget

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

The budget for the UK SPF should be set in context of the total quantum of funding for regional development. As noted by the APPG, the EU “is currently the biggest single financial contributor to regional and local economic development across the UK”. Nevertheless, we question the premise that a domestic UK SPF ‘does not require new money,’ irrespective of the funding that will revert to the UK following EU exit. We would welcome the opportunity to explore expanding funding for regional and local economic development following the UK’s departure from the EU. Moreover, the North East LEP has currently been awarded a £270m Growth Deal and consideration needs to be given if other domestic funding such as Local Growth Fund, Regional Growth and skills funding is rolled into the new UK SPF.

The structural causes of unequal growth and prosperity across the UK are significant, while the level of public investment to address it – even with ESIF – has been inadequate. Expenditure on regional programmes, including matched funding, peaked at levels of just under 1% GDP, but has fallen latterly to a typical level of 0.2% GDP[2]. Invariably, these funding constraints have limited scope to dramatically reduce spatial and socio-economic disparities. Indeed, recently we are witnessing a period of divergence, rather than convergence, in productivity growth between more and less prosperous areas across the country.

Britain has one of the highest levels of regional inequality of any major European nation. GDP per head in London is £46,000, almost 2.5 times higher than the North East figure of £19,000[3]. The Chief Economist at the Bank of England has said that “regional inequality is right up there as among the most important issues that we face today as a country.” We consider this a missed opportunity and that UK SPF is an opportunity to ‘rebalance the economy’ as set in the Industrial Strategy[4].

Current national expenditure on regional and local economic development reinforces these disparities. Rather than stimulate growth by targeting investment where it is needed, national spending tends to be concentrated in areas that already have a strong economic advantage. IPPR estimate that the North has missed out on £63 billion investment due to chronic underfunding of its infrastructure needs. Over the last decade, an annual average of £708 was spent on transport per person in the capital, while £289 was spent for each person in the north of England. The analysis

[1] The Brexit Group is an informal group including participants from the following; CBI North East, North East Chamber of Commerce, North East Federation of Small Businesses, Entrepreneurs Forum, North East EEF, Northern TUC, Association of Colleges, North East Local Enterprise Partnership, North East Combined Authority.
[2] Northumbria University (2018) Evidence Report on the role of EU funding in the North East. Not available in the public domain
[3] Ahmed, K, Britain’s inequality map – stark and growing, BBC, 2 December 2016 http://www.bbc.co.uk/news/business-38186047 Accessed: 03.01.18
[4] A. Haldane, ‘One car, two car, red car, blue car’, Speech given at Materials Processing Institute Redcar, 2 December 2016, Bank of England, London 2016

demonstrates how levels of public investment support growth in prosperous areas; this opportunity should be afforded to all regions of the UK rather than concentrated disproportionately in London and the South East[5].

In addition, funding for economic development has been disproportionately cut in recent years as Government reduced resources in several key areas vital to generating growth, exemplified by the removal of financial support for business growth activity and diminished capacity to proactively seek inward investment. This has not been replaced at regional or local level. Between 2010/11 and 2014/15 local resources for economic development were reduced by almost 49% nationally, whilst in the North East this amounted to 62%[6].

If the UK SPF is to enhance the prosperity of all places and communities in the UK, it needs to be substantial and complement a funding package that acknowledges regional development as a spending priority, irrespective of the multitudinous calls on money set to be repatriated from the EU.

The amount of ESIF funding passed to regions amounts to £1 billion per year for the whole of the UK. The North East has long been a beneficiary of these funds and the current ESIF programme brings over €560 million to the region for investment in R&D and innovation, infrastructure, economic assets, business support, employment and skills over seven years. Throughout the 2014-20 programme, these resources will support over 13,500 businesses and 160,000 people, considerably enhancing the scale of public intervention and pioneering new approaches to existing Government programmes. A replacement for EU funds is therefore of critical importance to us meeting our aspirations for our region, its communities and businesses. The UK SPF will be essential if the North East is to achieve its ambitious economic aims to create 100,000 more and better jobs by 2024, as set out in the SEP.

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

Multi-annual financial allocations (over at least a 7-year period) aid strategic decision making, breed confidence and stability, encourage private sector investment, promote job creation and opportunities for growth. Long-term, sustained funding supports sub-national economic development by explicitly tackling inter-regional and intra-regional disparities that take time to diminish. Regional development requires a long-term perspective; many projects are major infrastructure schemes and revenue programmes that need to be built or run over several years. Even under the current system, most interventions are delivered over at least a three-year time frame. It is therefore important that UKSPF is a strategic devolved multi-annual programme that enables projects of strategic and regional significance to be funded. Annual funding allocations would limit strategic planning and longer-term investments that enable us to determine their effectiveness, allowing time for virement so that successful programmes can be scaled up, opportunities identified, and gaps addressed.

Synchronising funding cycles across government is challenging and priorities are subject to change given national and sub-national spending reviews. Yet, HMT has established precedents for allocating guaranteed funding beyond fixed-term Parliaments, notably on defence and transport. The consistent, availability of Structural Funds over a longer-time horizon has partially helped to counteract cyclical and fiscal fluctuations in central government spending. Regional and local actors have a great deal of experience aligning different national, regional and local funds to develop and deliver the SEP, as the current agreed regional framework for economic development. The LEP Review demonstrated that LEPs are well positioned to administer and manage the Fund, building on the successful management of Local Growth Funding.

While we fully appreciate the imperative to design fit for purpose successor arrangements, we are significantly concerned about the implications of not having a fund designed and fully in place by March 2019 that can be utilised in 2020/21. The economic stimulus provided by continuous EU, regional and local investments could be lost and the impact of this cliff edge effect on the economy and labour market should not be underestimated.

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

The value of the individual funding streams integrated in a Single Pot must be transparent and reflected in the overall quantum of the UK SPF. Furthermore, the aim and function of the fund should be clearly specified. There are benefits to establishing a fund that brings together resources for economic growth; creating a flexible fund which avoids a restrictive siloed approach. In the North East, therefore UK SPF would fund activities across innovation, skills, business support, economic and social infrastructure, transport and employment support to meet the distinctive needs, assets and opportunities to the region.

Restrictions on eligibility is a recurrent frustration with Structural Funds leading to lots of different funding streams and 'initiative-itis'. It makes sense to adopt holistic approaches - widening eligibility criteria, eradicating artificial constraints such as age cohorts and project types - and enabling places to make decisions across different types of intervention.

[5] https://www.theguardian.com/politics/2018/aug/01/transport-spending-gap-london-north-of-england-ippr Accessed: 23.08.18
[6] Association of North East Councils response to the Fairer Funding Review for Local Government

Allocation across the country

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

UK SPF must be targeted to reflect local economic conditions, recognising the latent potential and opportunities for growth in many areas and not allocated on a competitive basis or according to some other mechanism e.g. the Barnett Formula. Individual areas should then be free to allocate funding from within their allocations to projects at a pan-regional or multi-country basis.

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

Given the limited time available to implement a UK SPF, it would be helpful if Government were to guarantee funding continuity and retain existing spending shares across both countries and regions. This would minimise disruption and maintain investment in local economies during a transitional period. In parallel, an analysis should be undertaken to ensure that future UK SPF allocations reflect local economic conditions, opportunities for economic growth and rebalance the economy.

Should the allocations within the devolved nations be an entirely devolved matter?

Allocations to devolved nations should be a matter for the UK Government, but how money is distributed within devolved nations is not an issue for the North East. But our view is that policy and project selection decisions relating to funding allocated to NE England should be fully devolved.

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

An allocation of needs-based funding like the NUTs system adopted by the EU has worked effectively. Allocations must be calculated using a fair and transparent formula with consideration given to deprivation, unemployment levels, productivity differentials, sectoral imbalances and the challenges likely to arise from Brexit.

Is there any role for competitive bidding between areas for funding?

We do not believe that the UK SPF should include significant levels of competitive bidding. In the North East, we have been a longstanding beneficiary of ESIF funding alongside being successful in competitions such as the Local Growth Fund, which has delivered major strategic projects across the region. Although the NE has successfully delivered EU funding, and delivered amongst the strongest outcomes in the country, we have a concern that moving to an alternative model of competitive bidding would exacerbate existing regional disparities, resulting in perverse outcomes from competitive bidding processes – which may not allocate resources where they can have biggest overall impact on rebalancing objectives. .

We are particularly concerned by recent guidance from Government to use Land Value Uplift to make investment decisions and allocate funding. Given the varying nature of Land Values across the country, this approach disadvantages those areas with lower land values, or with larger ratio between different land uses, which would affect parts of the North East and North compared to Greater South East. If competing nationally for funds, the Land Value Uplift metric creates an unfair playing field – contradicting Government key policies around re-balancing the economy. The industrial strategy demonstrates Government's commitment to ensuring that "every part of our country realises its full potential" through the introduction of new policies to improve skills, connectivity and infrastructure, innovation for example. There is growing evidence that the UK is now producing diseconomies in certain areas, manifested by acute housing shortages, congestion and air pollution in the capital contrasted with slower rates of growth and a higher prevalence of deprivation elsewhere. More affluent areas may be building on a stronger existing economic base, and interventions may appear to generate stronger VFM, although it is less clear if this is the case if diseconomies and deadweight are properly taken into account.

It is much better to award long-term resource settlements and encourage areas to deliver the best outcomes from their respective allocations. One exception is that if there is a drive to stimulate certain types of economic development based on competitive strengths in innovation or smart specialisation, it may be appropriate to introduce a bidding process. However, this should be distinct from the needs-based exercise used to allocate most of the fund. The UK SPF should also be sufficiently flexible to join up these areas of activity across sectors and within places.

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

Yes. The North East SEP as a regionally agreed economic plan should provide the framework for national investment in the regions and devolve responsibility to sub-national structures, such as LEPs, which have already developed significant delivery expertise and an ability to deliver much more quickly than national bodies. Furthermore, the LEP Review positioned LEP areas to be the geography to which UK SPF is allocated and therefore, the framework for managing and delivering domestic funds as LGF could be replicated for UK SPF. Devolution implies an element of regional differentiation to ensure investment can be tailored to the socio-economic geography, diverse needs and areas of opportunities for business and communities throughout the UK. We have considerable experience of establishing systems and procedures to manage and account for funds through the framework outlined in the SEP. Our approach is informed by a multi-sectoral partnership that has guided us through past EU funding programmes and continues to evolve to track changes in national government policy.

Activities to be supported

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

The UK SPF should deliver the principles set out in the industrial strategy to reduce inequalities between communities and places by promoting sustainable and inclusive growth. However, we consider there to be weaknesses in solely prioritising productivity measures. Tackling spatial disparities in economic performance, and targeting investment on economic opportunities and potential which promotes economic rebalancing should be retained as an explicit objective in UK policy making.

Investing in services that support disadvantaged and hard-to-reach communities neglected by mainstream state provision is also vitally important. In doing so, it will help tackle the UK's current skills gaps and productivity challenges and deliver a thriving labour market in line with the government's Industrial Strategy. To deliver these objectives, a new initiative should be led through partnerships that develop community-driven solutions which build social cohesion and opportunities for people on the margins of society. This vision should be part of a long-term investment strategy, which can deliver significant long-term savings by helping to tackle some of the UK's most entrenched inequalities.

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

Partners should determine the priorities they wish to fund in line with their SEP and Local Industrial Strategy that identifies regional and local needs and opportunities for economic growth.

A key opportunity with a domestic fund is the freedom to finance activities ineligible for EU funding, such as certain business investments and infrastructure improvements. There may be a need for different investment priorities resulting from changes in the UK's international relationships i.e. FDI and business support.

The UK SPF should integrate investment in infrastructure, business support, employment and skills, through a mix of capital and revenue funded interventions and empower partners to join up these activities within a place. Without this focus, regional disparities will continue to widen and further alienate communities disillusioned with the status quo.

Government should review EU plans for the next round of structural funding to explore objectives or activities that are also relevant to the UK. There is value in sharing experience and learning across the EU, and therefore it is important that Government facilitates strong learning and collaboration with EU regions and networks post Brexit.

Current limitations on size of project, bureaucratic restrictions and perceptions of risk have squeezed out some of the non-profit sector and smaller, community projects. Places must have the flexibility to fund large scale, multi-year projects as well as smaller scale initiatives, which often support the most vulnerable in society and those furthest from the labour market. Both types of project are important and the UKSPF should be responsive to this.

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

It is important to have an evidence based approach to regional policy, ensuring that regions focus on the right interventions based on clarity about what works for businesses and the community and are able to deliver to high level of quality. Regions should be able to select their priorities to address their needs and ambitions based on what is set out in the SEP.

Regardless, a stable funding environment is vital to preserve the infrastructure, networks and capacity needed to continue delivering regeneration. A significant proportion of European funding has financed support for businesses and people alongside physical regeneration and this mix should continue.

Bringing about inclusive growth and raising productivity will require increased investment in skills development as the rapid pace of technological change and globalisation intensifies competition. The new funds must:

- ensure places can support people who are displaced or excluded from the labour market into employment
- facilitate labour market retention and progression by upskilling
- provide the skills base to take advantage of emerging economic opportunities from investment in innovation, infrastructure and development

Achieving an appropriate balance across all these funding priorities is critical, recognising that labour market conditions vary across the country. Delivering improved labour market outcomes in relation to employment rates, skills levels and wages relies on local knowledge of key sectors that are sustainable, offer good quality employment, and the support people need to access jobs in these industries. Building sustainable infrastructure is an emerging requirement for places to remain competitive while decarbonising their economy. Opportunities to advance this agenda remain largely untapped due to complexities and operational constraints of existing programmes.

There should be a smooth transition to the UK SPF to ensure that activities currently funded through EU or domestic funds continue to support strategic economic plans.

Management

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

The UK SPF should facilitate local and regional priority setting within an overarching strategic framework, enabling areas to realise national objectives in a way that is sensitive to the opportunities and challenges of shaping growth and prosperity in different places. Successive programmes have drawn significantly on local understanding of the priorities, assets and needs of communities within a common strategic economic framework to inform investment decisions, for example the North East LGF funds major projects for the region. Therefore local partners with a sound grasp of economic conditions, such as LEPs should be trusted to use the funds to deliver these ambitions with minimal guidance from Government.

Partnerships between the public, private and social partners such as trade unions and the voluntary sector must be retained in future governance arrangements and stakeholders should be involved in all aspects of the design, management and evaluation of programmes. Local stakeholder knowledge has allowed sound decision making but also steered changes and adjusted programmes to take account of emerging local challenges as they arise. Collaboration has beneficial impacts beyond the initial funding period and building institutional capacity should be recognised as an outcome, alongside quantifiable outputs and results.

Joint working encourages sectors to coalesce around a shared vision for an area, which in turn levers the necessary buy-in to agree priorities, align resources and scale up activity focused on inclusive growth and improved productivity. In addition to shaping the programme at a strategic level, an inclusive and participative decision-making process ensures partners focus institutional capacity on working towards common objectives and take collective ownership for delivering better outcomes to maximise the impact of intervention.

A long-term fully devolved funding programme, aligned to the Strategic Economic Plan and emerging local industrial strategies, will allow effective strategic management and long-term investment decisions to be made. The LEP Review positioned LEPs as the mechanism for the allocation, administration and management of the Fund, which will enable significant capital projects and revenue programmes with medium-term outcomes to be developed. Reserves or underspends should be managed in a way that incentivises expansion of effective programmes and the development of tools that address specific needs e.g. JEREMIE. The ability to combine and manage funds at local programme level is essential to deliver more cohesive, integrated and impactful interventions. Despite attempts to combine EU funding streams, the different accounting systems and sets of rules constrained the development of joint programmes. The UK SPF should include people, business and place driven funding and avoid a silo approach controlled by different government departments.

Government should set broad guidelines; regardless of Brexit, the UK will still be bound by a form of State Aid rules (whether convergent with EU or WTO rules) and this is a matter for the centre to resolve. The criteria for the UK SPF will therefore need to comply with this legal framework.

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

Inevitably, policy makers will want to understand the impact of Shared Prosperity Fund on metrics like unemployment, jobs, GVA and wages. But, while these indicators are tangible, they do not capture full added value in relation to partnership working, resource pooling, sustainable growth, sectoral development, job quality or improved living standards. It is also important to take into account the ability to lever other investment, whilst ; iconic culture-led regeneration in the NE has enhanced the region’s image, quality of life, tourism and talent retention and support for a network of innovation assets critical to the development of regional catapults.

The rigidity of a national assessment framework highlights a missed opportunity to capture the benefits and durable legacy of investing resources in overcoming discrete regional and local challenges. In future, there should be wider thematic objectives, priorities for intervention and targets determined sub-nationally at the appropriate geography linked to the industrial strategy. Instead of apportioning outputs and results based on funding allocations, places should define which indicators are most relevant according to the challenges and opportunities to be addressed by each area. Regional and local actors should also agree the balance between productivity and inclusivity outcomes to deliver a sustainable return on investment.

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

Simplification should be a key objective in designing the UK SPF. Aligning programmes nationally, regionally and locally by prescribing the amount of resources to be contributed by other public or private funders through a match funding regime is no longer appropriate. The intervention rate (requirement for partners to provide a specified percentage of match funding) has proven difficult in an era of declining public funding and reduced levels of private finance. Its removal would enable places to capture leverage instead by devising a holistic funding package derived from various sources and denominations. The fund should have the flexibility to lever in private funds and public funds, or offer a wholly financed approach, together with the ability to fund revenue and capital interventions, as determined collaboratively by regional and local partners. Improved flexibility would accelerate coordinated physical regeneration, business growth and labour market interventions to maximise opportunities to bring about sustainable, inclusive growth. Regionally, we can align and integrate sectoral and place-based investment in science, research and innovation, skills and infrastructure, underpinned by effective partnership working to target resources effectively.

Retaining capacity to identify, develop and deliver projects is crucial, particularly by those who best understand the needs and priorities of an area and therefore how to target funding efficiently and effectively. The programme/fund should be sufficiently well resourced and embedded throughout the project cycle from development to closure. Large and complex programmes require oversight to reassure funders that place making institutions have the capacity to operate on the principle of subsidiarity; making effective decisions at the most appropriate spatial tier to deliver national objectives, better meet the needs and build opportunities for regions and local communities. Managing the cost of delivery must be balanced against designing a programme that meets national priorities as well as fulfilling regional and local needs. LEPs are therefore well positioned to manage the Fund effectively, cheaper than other mechanisms as LEPs can replicate the management and delivery of LGF using the assurance framework and LEP governance structures.

During the transitional period, there should be minimal system changes pending consideration of the longer-term reforms that will be required to administer the UK SPF.

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

Traditionally local government has performed a strong role in local economies, overcoming market failures by investing in commercial property, housing, transport and skills development alongside managing the regeneration of cities and localities. Under the current ESIF programme, local authorities play an invaluable role guiding local expenditure and overseeing programmes, which must be maintained. The LEP Review positions LEPs as an appropriate mechanism for managing funding, and therefore local authority engagement will continue through LEP board membership and executive and office groups.

It is important that the UK SPF is open to all sectors of the economy. UK SPF funding therefore should improve upon, rather than replace, those reductions in spending on public infrastructure projects because of austerity, which has acutely and disproportionately affected local government.

How should programmes and projects be monitored and evaluated?

Monitoring and evaluation should be devolved to the sub-regions. The replacement of regional governance arrangements (Programme Executive Group and Local Management Committee) with a national management committee has resulted in disjointed programme, monitoring and evaluation activity, which is onerous to resource and has led to a slow and cumbersome system. Using national evaluation criteria to assess programmes designed to meet regional needs makes it difficult to capture the beneficial impact of this funding on sub-national economic development. Moreover, a centralised, national approach has made it difficult to ensure relevant considerations inform future policy and programme design. Devolved and local authorities are subject to strict scrutiny and auditing rules and have a strong track record managing funding programmes. Proportionate reporting and record keeping requirements, relative to project size, would simplify the process, generate savings and produce a leaner, more effective system.

Funding should be made available to ensure that the monitoring and evaluation at project level as well as programme level is meaningful. Enough resources should be put in place to undertake evaluation throughout the programme, including ex ante, ongoing and ex post evaluation.

Greater emphasis should be given to learning what works, what may be done differently and how challenges can be overcome, coupled with assessing value for money, measuring results and appraising outcomes. Most importantly, evaluation must be better used to shape future projects and programmes, with learning shared across regions.