APPG Inquiry on Post-Brexit Funding

Sheffield City Region welcomes the opportunity to respond to this inquiry on post-Brexit funding for nations, regions and local areas. Our response provides answers to the questions that are most pertinent to the Sheffield City Region but also includes additional comments that the APPG may find insightful.

Overall Budget

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

The budget for the UK Shared Prosperity Fund (UKSPF) should ensure that regions and nations do not receive a reduction in what they would have received if the UK had not voted to leave the European Union. This should be the minimum allocated. Allowing for inflation, and assuming that the UKSPF would also replace the Local Growth Fund (LGF), the Sheffield City Region proposes that the annual UKSPF budget for England should be at least £3 billion per annum. This funding would enable areas to drive inclusive and sustainable growth, boost productivity, tackle inequalities and reduce economic disparities in their communities.

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

A multi-annual allocation of UKSPF is essential. Multi-annual allocations offer stability and enable projects to be properly planned, delivered and evaluated. The multi-annual allocation of the precursor European funding programmes has been a significant benefit to long-term planning. In comparison, the annual allocations associated with LGF have given rise to uncertainty over funding, and the emphasis has shifted onto spending the funding allocation within the required time limit rather than focusing on the quality of project delivery. This has been particularly unhelpful for large, complex or pilot projects which require more meticulous planning and a longer-term approach to funding. Another advantage of multi-annual allocations is the possibility of leveraging or borrowing against the funds as part of a long-term and rolling investment programme. The Sheffield City Region recommends a UKSPF multi-annual allocation of at least five years, with the flexibility to carry forward spend and losing the ‘in-year spend it or lose it’ mentality of LGF.

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

The plethora of different funding programmes, including ESIF, other European funding streams like Horizon and LGF have often had different eligibility criteria and timeframes, and strict rules on the virement of funds between the funding themes. This has required more resource to manage and monitor funding and has made it difficult to co-ordinate funding on larger projects. A ‘single pot’ approach to funding allocations would provide areas with a simplified and integrated fund which would be easier and less resource intensive to manage. It would also provide areas with greater flexibility and allow them to better target and maximise their funding, particularly when responding to local needs and dealing with economic shocks.

Allocation Across the Country

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

The Sheffield City Region agrees that the allocation of UKSPF should be based on a formula, to ensure that those areas with the greatest need receive disproportionately more funding. The UKSPF should be devolved as much as possible where local institutions, particularly Mayoral Combined Authorities (MCAs), are already in place. Like the Transforming Cities Fund, there should be a top-slicing for MCAs with an elected Mayor. The precursor European Structural Fund programmes were allocated to deliver convergence between lagging regions and more prosperous areas, and the UKSPF should replicate it.

However, we would propose that the formula used is different to the one used for the 2014-20 programme, which was challenged through a Judicial Review. The current methodology should not be rolled forward as it is as we do not see how this would allow the UKSPF to truly reflect the aims of sharing prosperity fairly across the UK. Rather allocations of the UKSPF should be used as an opportunity to develop a methodology which is based on the needs and opportunities of the UK, not just a rolling forward of an EU based allocation methodology. This would allow the UKSPF to truly reflect current needs and opportunities of urban and rural areas within and across the UK.

The 2014-20[[1]](#footnote-1) allocations to the Sheffield and Liverpool City Regions represented a significant decrease compared to the 2007-13 programme, despite South Yorkshire and Merseyside being transition regions. The formula used for the allocation meant that Sheffield City Region received European funding of €111 per head (only marginally above the England average of €107 per head), whilst the North East (€273) and Tees Valley (€300) City Regions received nearly treble that amount.

The UKSPF must be disproportionately targeted at places of need, which aligns with the Government’s objective of the UKSPF to reduce inequalities. The Sheffield City Region believes that allocating the UKSPF on a per capita basis would be detrimental to the most deprived geographical areas in the country. If the ethos behind UKSPF is to redress imbalances in economic performance, and to spread wealth to areas of disadvantage, the funding formula must be calculated on the basis of need rather than size of population.

Creating a needs-led allocation formula would also tie into the Government’s objective of delivering economic growth across the country outlined in its Industrial Strategy White Paper, specifically on the development of the Local Industrial Strategies. Gross Value Added (GVA), productivity and house prices are three options that could be considered for the UKSPF funding formula (see Annex). For example, areas with the lowest GVA rate could receive a greater proportion of the UKSPF budget, with those areas with highest levels of GVA receiving proportionately less funding. This would target investment at the more deprived areas of England, particularly in the North and Midlands, helping to rebalance the UK economy. The table on the next page list the LEPs in England with the lowest and highest GVA rates:

Table 1: LEP Areas with the Lowest and Highest GVA (2016)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **LEP Area** | **GVA** |  | **LEP Area** | **GVA** |
| Cornwall & Isles of Scilly | 72.9 | London | 133.7 |
| Black Country | 80.3 | Thames Valley Berkshire | 125.8 |
| Stoke-on-Trent & Staffordshire | 81.2 | Buckinghamshire Thames Valley | 114.4 |
| Heart of the South West | 82.3 | Enterprise M3 | 113.7 |
| Sheffield City Region | 82.8 | Oxfordshire | 108.7 |
| Greater Lincolnshire | 82.9 | Coast to Capital | 104.9 |
| The Marches | 83.0 | Cheshire & Warrington | 104.1 |
| York, North Yorkshire & East Riding | 84.5 | Solent | 102.8 |
| Lancashire | 86.0 | West of England | 102.1 |
| Leeds City Region | 86.1 | Hertfordshire | 100.7 |

*UK = 100 Source: ONS*

For the LEPs in England, spend per head for the 2014-20 period in the North and Midlands was €147 compared to €76 (€59 if Cornwall is excluded) in the South. If this split is not replicated for the UKSPF, regional divides could become even starker. Ensuring that this split is repeated in the new Fund requires funding allocation criteria, such as GVA, that delivers this.

**In England, should sub-regions be the basis for financial allocations, as with EU funding at present? (Question 9)**

The Sheffield City Region believes that the UKSPF should be allocated to functional economic areas, and top-sliced and devolved to MCAs because of their strong and directly accountable governance. Areas should be given autonomy and control over their UKSPF allocation and should not be expected to ring-fence funding from their allocation to support national Government initiatives. Unlike current European funding and LGF, the UKSPF allocation should not differentiate between capital and revenue funding. Instead, areas should simply be awarded an amount of money to invest in projects and initiatives that address the needs and priorities of urban and rural areas within their local economy.

**As with present-day EU funding, should economic development and convergence remain the primary objectives of the new fund? (Question 10)**

One of the great successes of the European Structural Fund and Local Growth Fund programmes is that they have created employment and developed skills in more struggling regions. The UKSPF should continue to tackle inequalities and support local economic development and regeneration in local communities.

In line with the Government’s Industrial Strategy, UKSPF should also be focused on increasing productivity, and addressing the disparity between lower productivity areas in the North and Midlands to higher productivity areas in the South of England. This is also aligned to the recent statement from the Secretary of State for Housing, Communities and Local Government James Brokenshire MP, who said he wants the fund to “tackle inequalities between communities by raising productivity, especially in those parts of our country whose economies are furthest behind.”

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

Having to adhere to narrow objectives set in Brussels has been an obstacle to delivering projects that reflect local needs. Brexit and the creation of the UKSPF gives the opportunity to provide areas with the autonomy to invest in locally set priorities (as outlined in the Strategic Economic Plan, Mayoral Manifesto and Local Industrial Strategy for SCR) rather than priorities defined by others. This process should be managed by the Local Enterprise Partnerships or Combined Authorities, who have robust and transparent processes in place.

**As a UK fund, should the UK Government set the broad guidelines for the priorities to be supported by the Shared Prosperity Fund? (Question 13)**

The European Structural Fund programmes have been restrictive by outlining a set of priorities and themes that regions have been obliged to comply with. They have also set funding limits for each theme, which has created difficulties in dividing funding between themes to address local needs.

There should be some national steer of the UKSPF aligned with local areas being allowed to determine local priorities. A national framework with a range of themes aligned with local flexibility would enable regeneration money to be spent on projects that are a priority for a local area. If local areas could invest in projects that they wanted and was less bureaucratic then there would be higher demand for investment, which has been evident with the LGF. There is demand for a more flexible type of investment. Similarly, the role of match-funding could be revaluated. In recent years in the SCR, partners have welcomed the broad priorities of the ESIF programme but have often struggled to fulfil the match-funding requirements. More flexibility for match-funding could deliver more benefits to regions.

The Sheffield City Region would want the flexibility to invest the UKSPF in supporting the locally agreed priorities in the Strategic Economic Plan, emerging Local Industrial Strategy and Mayoral Manifesto. Given that Local Industrial Strategies will be agreed between areas and government then it is to be expected that these would have a level of commonality across the country. This would be supported by a monitoring and evaluation framework to be agreed in advance of spend for the money focused on outcomes, not just spend outputs. This would enable areas to concentrate funding on addressing the specific needs of their local communities, and to flex the funding to respond to any economic shocks as they arise.

**How should the impact and desired outcomes of the Fund be defined and measured? (Question 15)**

Impacts and outcomes of the Fund should be defined and measured at the local level. This should be managed by Local Enterprise Partnerships or Combined Authorities, who have robust and transparent processes in place, including:

* + A single pot assurance framework
  + An agreed and single reporting, monitoring and evaluation framework with Government, designed to realise the outcomes in our Strategic Economic Plan, Local Industrial Strategy and Mayoral Manifesto

Combined Authorities, particularly ones with a directly elected Mayor, already have a monitoring and evaluation framework in place and are best placed to measure outcomes of the UKSPF.

Additional Comments

The UKSPF provides the opportunity to continue the positive aspects of European Structural funding whilst also making efficiency improvements. Positive aspects include targeting funding at more lagging economies by improving skills and creating jobs where money would not have been directed otherwise. Research has found that Structural Funds have had a positive effect on industry location (Midelfart-Knarvik and Overman, 2002), job creation (Regeneris, 2013) and helped deliver regional growth (Ederveen, 2002). Negative aspects of European Structural funding, which ought to be addressed by the UKSPF programme, include excessive regulations, a lack of local control and onerous reporting and monitoring requirements.

**Key Features of UKSPF**

UKSPF should build on what is already working from the existing LGF programme and which is delivering positive outcomes. Therefore, UKSPF should be designed to:

* Be a long-term programme that gives certainty over the size of the pot – previous European Funding programmes ran for 7 years and allowed sufficient time for projects to be developed, delivered and evaluated.
* Be flexible around annual spend. Thus, losing the ‘in-year spend it or lose it’ mentality of LGF – maybe adopting the ESIF N+3 targets instead where projects are given three years to spend their funding.
* Be capital and revenue blind, allowing areas to invest in what is needed and where the greatest opportunities lie regardless of whether it is capital or revenue expenditure.
* Provide areas with the autonomy to invest in locally set priorities (as outlined in the Strategic Economic Plan and Local Industrial Strategy) rather than priorities defined by Government.
* Allocated disproportionately to areas on the basis of need, with MCAs receiving a top-sliced proportion.
* Be managed by the Local Enterprise Partnerships or Combined Authorities with robust and transparent processes in place including:
  + A single pot assurance framework
  + An agreed and single reporting, monitoring and evaluation framework with Government, designed to realise the outcomes in our Strategic Economic Plan, Local Industrial Strategy and Mayoral Manifesto.

**Annex**

**GVA**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Area | GVA per head £  2016 | 10-year growth % 2006-16 | 5-year growth % 2011-16 | 1-year growth % 2015-16 |
| **SCR (LEP)** | **18364** | **20.44** | **13.13** | **1.54** |
| Yorkshire | 21285 | 18.92 | 13.03 | 2.24 |
| UK | 26584 | 22.63 | 15.32 | 2.73 |

Table 1: GVA performance by district. Source: ONS

As can be seen, the GVA per head of the SCR is considerably below the levels in both Yorkshire and well below the whole UK. In addition, GVA growth over the last 1, 5 and 10 years has been well below the national average in the SCR.

**Productivity**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| District/Area | 2017 productivity (GVA/emp) | Productivity growth over period: | | | | |
| Six-year 2011-17 | Two-year 2015-17 | One-year 2016-17 | Forecast 2017-22 | Forecast 2017-27 |
| **SCR** | **50.0** | **0.91** | **0.85** | **0.14** | **6.2** | **15.7** |
| UK | 62.2 | 0.84 | 0.63 | 0.23 | 6.6 | 16.6 |

Table 2: All industry productivity in the SCR Source: Experian REM

As can be seen, productivity in the SCR is very low. Although productivity growth since 2011 has been slightly above the national average level, this was driven by strong performance in the Derbyshire districts in SCR. All four South Yorkshire districts have seen either stagnant or falling productivity since 2011, so funding to try to reverse this worrying trend is needed.

**House Prices**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Area | 2017 median price £ | 20-year growth % | 10-year growth | 5-year growth | 1-year growth |
| **SCR** | **135000** | **210** | **8.9** | **14.9** | **2.3** |
| Greater Manchester | 155995 | 232 | 17.7 | 24.8 | 5.0 |
| West Yorkshire | 150000 | 211 | 11.1 | 20.0 | 3.4 |
| Yorks/Humber | 155000 | 220 | 15.3 | 19.2 | 3.4 |
| England | 230000 | 283 | 31.4 | 26.7 | 4.5 |

Table 3: Comparison of regional house price growth over 20 years. Source: ONS

House prices are also very low in the SCR with prices considerably below the national average but also other similar LEPs and growth has been low in recent years too. Although low house prices are positive in terms of affordability, they are indicative of an area that has low demand for homes due to poor economic performance, so are really an indicator of an area that needs support.

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1. In the 2014-2020 programme the Sheffield City Region Local Enterprise Partnership was allocated €207.2m of ESIF and €3.1m of EAFRD. [↑](#footnote-ref-1)