All-Party Parliamentary Group

Post-Brexit Funding for Nations, Regions and Local Areas

A NOTE ON THE FINANCING OF THE UK SHARED PROSPERITY FUND

Context

The UK government has promised to replace EU funding to the regions with a new *UK Shared Prosperity Fund*.

- In the event of a negotiated withdrawal from the EU, the new Fund would need to come into effect when the 'transition period' is planned to end, currently in December 2020.
- In the event of a no-deal Brexit, the Treasury has promised to underwrite the funds that would have come from the EU up until the end of the present EU spending round.

In both cases the new Fund would need to be in place for 1 January 2021.

More than a year ago, the government promised that a full consultation on the UK Shared Prosperity Fund would be initiated before the end of 2018. The consultation has still not appeared and the APPG understands that a full consultation is now unlikely ahead of the Spending Review, planned to be completed in the autumn.

The APPG regrets this delay in the consultation, which had been widely anticipated to provide the opportunity for numerous players with an interest in post-EU funding to express their views on the direction, size, allocation and management of the new Fund.

The APPG is aware that the Spending Review will set the overall financial envelope for the Fund. The present note therefore sets out considered proposals, for the attention of ministers and the Treasury, on the sums that need to be earmarked for the new Fund.

Starting point

Our starting point is the recommendation we made in our November 2018 report of an initial inquiry into the UK Shared Prosperity Fund[1]:

> *"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."*
> (Recommendation 1)

We went on to say:

> *"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…"*
> (Recommendation 3)

We see no reason to be deflected from these recommendations, which are consistent with the representations our inquiry received from many organisations across England, Scotland, Wales and Northern Ireland. At the same time, we would flag up that we are not simply arguing for 'more of the same'. As other recommendations in the report made clear, we see important opportunities for the UK to do things better, freed from some of the constraints and paperwork emanating from Brussels.

The analysis and recommendations in our 2018 report still stand. The present note is an addition to the argument, not a replacement.

What goes into the pot?

The core of the UK Shared Prosperity Fund needs to be a replacement for the two biggest components of the EU Structural Funds presently coming to the UK regions:

- **European Regional Development Fund (ERDF)**
- **European Social Fund (ESF)**

Broadly, the ERDF funds infrastructure, business support, R&D, small firms and environmental measures while the ESF funds employability, skills and training. The total value of the ERDF and ESF funding due to come to the UK in the present 2014-2020 EU spending round is €10.3bn[2], equivalent to £9.15bn at the current exchange rate[3], or £1.3bn a year.

In addition, there are a number of **smaller pots of EU funding** impacting on national, regional and local development that are candidates to be rolled into the UK Shared Prosperity Fund. These are:

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[1] All-Party Parliamentary Group on Post-Brexit Funding for Nations, Regions and Local Areas (2018) *Report of an initial inquiry into the UK Shared Prosperity Fund*, APPG, London (link)
[2] Source: HM Government
[3] €1=89p

- European Maritime and Fisheries Fund
- LEADER programme for rural development
- Youth Employment Initiative

At the current exchange rate these are worth £216m[4], £349m[5] and £183[6]m respectively to the UK over the 2014-2020 period, or a total of a little over £100m a year.

For the purpose of the UK Shared Prosperity Fund, all these amounts need **uprating for inflation** in order to maintain the value of funding in real terms. An increase of 12.5 per cent is necessary for this purpose[7].

It has become clear in recent months, since the publication of our 2018 report, that in the absence of Brexit the UK would actually receive substantial additional EU funding in the 2021-27 spending round. This is mainly because on the basis of the most recent figures[8] three additional sub-regions are on course to slip below the threshold of '75 per cent of EU average GDP per head' that would qualify them for **less developed region status**. These sub-regions are:

- Lincolnshire
- South Yorkshire
- Tees Valley & Durham

They would therefore join West Wales & the Valleys and Cornwall in receiving a much higher volume of EU funding. In a detailed study, the Conference of Peripheral Maritime Regions[9] has estimated that these additional areas would receive at least €500 per head in EU regional development funding over the forthcoming spending round. This would represent an increase of £950m, or £135m a year, over the present funding to these sub-regions[10].

Additionally, the European Commission has proposed that **transition region status** should be extended to cover all regions with a GDP per head between 75 and 100 per cent of the EU average, compared to 75-90 per cent at present. This would bring in a number of additional UK sub-regions with GDP figures in the 90-100 per cent range. On current statistics[11] these are:

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[4] Source: House of Commons Library (2018) *UK funding from the EU*, briefing paper no.7847
[5] Source: European Commission *Factsheets for Rural Development*
[6] Source: House of Commons Library (2018) op. cit.
[7] Based on CPI inflation of 9.3 per cent between January 2014 and May 2019 and anticipated CPI inflation of 2.0 per cent p.a. to January 2021.
[8] Eurostat data for 2015, 2016 and 2017. The EU uses the average of three years' statistics.
[9] Conference of Peripheral Maritime Regions (2019) *UK entitled to €13bn regional funding if it remains in EU*, CPMR, Brussels
[10] APPG Secretariat estimates based on population and existing ERDF and ESF funding
[11] Eurostat data for 2015, 2016 and 2017

- East Anglia
- East Wales
- Greater Manchester
- Leicestershire, Rutland & Northamptonshire
- Outer London South
- North Yorkshire
- South Western Scotland

These sub-regions have a total population of 12.7 million. It is not clear how much extra funding these areas would have received from the EU, or indeed whether any money would have been at the expense of 'more developed regions' (GDP per head above the 100 per cent threshold). Additional funding of €50 per head for these new transition regions over the next EU spending round would equate to £560m, or £80m a year.

The final addition to the UK SPF pot is much the largest. The APPG understands that the integration of the **Local Growth Fund** into the Shared Prosperity Fund is under active consideration, indeed likely. The Local Growth Fund is a major funding stream in its own right, supporting investment in skills, housing and transport, principally in England though Growth Deals involving UK government funding have recently been extended to parts of Scotland and Wales.

In our 2018 report we noted that there is some support from around the country for rolling in the Local Growth Fund but we also noted that this would reduce the scope for matching finance for some projects, requiring adjustments in rules and expectations.

The government has so far allocated £12.1bn to the Local Growth Fund for the period 2012-13 through to 2020-21, with annual spending in the later years expected to run at a minimum of £2bn a year[12]. Uprating for inflation would point to an annual budget from 2021 onwards of £2.25bn a year.

Integrating the Local Growth Fund into the UK Shared Prosperity Fund would nevertheless not be straightforward. The Local Growth Fund has involved different allocation criteria and processes to EU funding and, in England, has involved competitive bidding between Local Enterprise Partnerships that is absent from the allocation of EU funds. How Scotland, Wales and Northern Ireland might fit in is an additional complication. There is at least a case for maintaining a degree of separation and allocating the EU and Local Growth Fund elements of a new Fund separately, both between the four nations of the UK and between local areas within England.

[12] HM Treasury (2013) *Investing in Britain's future*, HM Treasury, London

The overall financial envelope

The table below combines all these elements to quantify the annual budget required for the UK Shared Prosperity Fund. The headline figure is that if the Local Growth Fund is incorporated into the new Fund:

- **The overall budget for the UK Shared Prosperity Fund should be worth just over £4bn a year**

If the Local Growth Fund were to be excluded, the overall budget required just to replace EU funding would be just under £1.8bn a year.

What should be emphasised here is that either of these figures represents a steady-state budget. The only upward adjustments are to allow for inflation and to reflect the extra EU funding that would have come to the UK in the absence of Brexit.

Annual budget required for the UK Shared Prosperity Fund

	£m
Replacement for ERDF and ESF	1,300
Replacement for other EU programmes (EMFF, LEADER, YEI)	100
Uprating for inflation	175
Additions to reflect extra EU funding that would have come to:	
Less developed regions	135
Transition regions	80

Total replacement for EU funds	**1,790**
Local Growth Fund	
Present annual spend	2,000
Uprating for inflation	250
Total annual budget required	**4,040**

Sources: Based on HMG, European Commission and House of Commons Library data