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Brexit, Infrastructure and Legislative Change Overview and Scrutiny Committee

Supplement Pack

Wednesday 7 November 2018
2.00 pm
Warspite Room, Council House

Members:
Councillor Morris, Chair
Councillor Fletcher, Vice Chair.
Councillors Buchan, Carson, Churchill, Cook, Mavin, Stevens and Wheeler.

Please find enclosed additional information for your consideration under agenda item number 6.

Members are invited to attend the above meeting to consider the items of business overleaf.

Tracey Lee
Chief Executive

Brexit, Infrastructure and Legislative Change Overview and Scrutiny Committee

EU FUNDING AND THE SHARED PROSPERITY FUND

Policy and Intelligence Team

PLYMOUTH CITY COUNCIL

INTRODUCTION AND BACKGROUND

Overall European Structural and Investment Funds (ESIF) are worth £5.3bn to the UK over the period 2014 2020. In December 2017 the EU/UK negotiating teams agreed in principle that the UK would continue to have access to EU funds until the end of this funding cycle in 2020.

The draft withdrawal agreement between the UK and the EU published in March 2018 anticipates that the UK will continue to participate until programmes end in 2023. In July 2018 the government announced a guarantee that will cover all projects, funded by the EU under the 2014-2020 programme period, even in the event of the UK leaving the EU without a negotiated deal.

According to government estimates EU funding from ESIF and other funding streams is worth €1.495bn[i] to the South West region, nearly 20% of the UK total. However this figure is significantly inflated by the allocation to Cornwall which alone in England has 'less developed' status. The allocation of EU Structural Funds to the Heart of the South West LEP area of which we are part is a more modest £120m.

Within this figure it is quite difficult to establish the total allocated amount from which Plymouth benefits as many projects are funded on larger geographies and the distribution of funds applied to Local Authority geographies are generally not specified. Nevertheless funding allocated on this basis may still significantly benefit the City whether through the direct allocation of funds or through some other benefit within the project. Current ERDF funded projects deliver business support and growth, develop social enterprises as well as provide support for new business start-ups and exporters. Another initiative enables businesses to work with the University of Plymouth's electron microscopy centre. The city's residents also benefit from the skills development and training opportunities through EU funding.

The 2017 Conservative Manifesto promised that the Government would "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. The money that is spent will help deliver sustainable, inclusive growth based on our modern industrial strategy." Development of the UK Shared Prosperity Fund (UKSPF) is being led by the Ministry for Housing, Communities and Local Government (MHCLG).

EU FUNDING STREAMS

Over 76% of the EU budget is managed in partnership with national and regional authorities through a system of "shared management", largely through **5 big funds -** the Structural & Investment Funds.

- European Regional Development Fund (ERDF) – regional and urban development
- European Social Fund (ESF) – social inclusion and good governance
- Cohesion Fund (CF) – economic convergence by less-developed nations
- European Agricultural Fund for Rural Development (EAFRD)
- European Maritime and Fisheries Fund (EMFF)

Other funds are managed directly by the EU. These are provided in the form of:

- Grants for **specific projects in relation to EU policies**, usually following a public announcement known as a 'call for proposals'. There are several funds that are being directly managed by the EU, such as Interreg, Horizon 2020, Erasmus, Creative Europe and other programmes.
- Contracts issued by EU institutions to **buy in services, goods or works** they need for their operations – like studies, training, conference organisation, IT equipment. Contracts are awarded through **calls for tender**.

For Plymouth the funds with greatest relevance are the ERDF and Interreg, ESF and to a lesser degree EMFF. The University of Plymouth has been successful in attracting Horizon 2020/European Research Council funding and Erasmus+ has funded projects at the university and Plymouth City College. EAFRD is of significant importance across the SW peninsula.

The European Regional Development Fund (ERDF) provides funding to support regional growth and reduce differences in economic performance between regions. The ERDF focuses its investments on several key priority areas.

- Promoting research and innovation;
- Enhancing access to, and use and quality of, ICT
- Enhancing the Competitiveness of SMEs
- Supporting the Shift Towards a Low Carbon Economy in All Sectors
- Promoting Social Inclusion, Combating Poverty and Discrimination

Interreg supports transnational projects with a goal to foster transnational cooperation. It is financed from within ERDF outside any national ERDF allocation. It is administered directly by the EU. Plymouth City Council and stakeholders across Plymouth are partners in various projects, e.g. the Maritime, Military and Industrial Heritage of the Atlantic Coast (MMIAH) and Atlantic Youth Creative Hubs (AYCH) projects.

ERDF is managed by the Ministry of Housing, Communities and Local Government in England. ESF is managed by DWP. While the allocation of ESIF structural funds is done on a LEP basis, LEPs have only an advisory role as part of the ESIF committee.

The European Social Fund (ESF) invests in people, with a focus on improving employment and education opportunities across the European Union. It also aims to improve the situation of the most vulnerable people at risk of poverty. For the 2014-2020 period, the ESF will focus on four of the cohesion policy's thematic objectives:

- promoting employment and supporting labour mobility
- promoting social inclusion and combating poverty
- investing in education, skills and lifelong learning
- enhancing institutional capacity and an efficient public administration

The European Maritime and Fisheries Fund (EMFF) has the following objectives

- helping fishermen in the transition to sustainable fishing;
- supporting coastal communities in diversifying their economies;
- financing projects that create new jobs and improve quality of life along European coasts; and
- making it easier for applicants to access financing.

The UK will receive EUR 243m from this fund. Locally, EMFF has funded projects such as the PCC Behaviour change and training project to save lives of Plymouth Fishers.

European Agricultural Fund for Rural Development (EAFRD) worth €100 billion from 2014-2020, with each EU country receiving a financial allocation for the 7-year period. The UK allocation over this period is worth €5.2bn

ISSUES TO CONSIDER

The commitment to repurpose the money currently committed to EU structural funds to support the development of the UKSPF is welcome, however the Government has made significant commitments to the future funding of the NHS, some of which it says will be funded from money we will no longer be required to pay to the EU. This may limit the funding available to resource the UKSPF. The demand for structural and investment funds is likely to increase as a result of Brexit, ERDF is currently the main source of business support funding. If this isn't continued we will no longer have any publicly funded business support.

Whilst ESIF plays an important role in the funding landscape, it is bureaucratic and complicated. A new programme that ensures rigorous management but without the restrictive audit and compliance regime of ESIF might encourage innovation and deliver better results. However a single, larger programme would still need to ensure that the specific activities (fishing, rural development etc.) addressed by EMFF and EAFRD are not lost.

Where other budget lines are clearly aligned to the aims and objectives of the UK Shared Prosperity Fund (UKSPF) i.e. Growth Funds, it might be appropriate to 'roll in' these funds. However there is a risk that these might be used to maintain the overall value of the UKSPF at the current ESIF level leading to a net cut in the overall value of funds. Plymouth has benefitted greatly from Local Growth Funding (LGF) over the last 5 years, for projects such as Plymouth Science Park Phase 5, Derriford Transport Scheme, Oceansgate Phase 1 and City College Plymouth STEM centre. If LGF is rolled into the UKSPF the overall value of the fund needs to reflect this as well as the ESIF funding.

Rolling other funds in may help to avoid projects having to satisfy multiple funders' requirements. However if other budget lines are rolled into UKSPF any requirement for match funding would need to take into account the limited availability of alternative sources.

ESIF funding aims to support regeneration of disadvantaged areas and ultimately eradicate structural disparities between regions and improve cohesion. It is important that the future mechanism to allocate funds is also sensitive to sub-regional economic geography to ensure that less prosperous areas continue to receive the level of funding that their specific needs require. However complexities should be reduced to a minimum. For example, currently, different Categories of Regions (Less Developed, Transition, More Developed) lead to different allocations which require separate accounting and delivery.

HotSW is one of the LEPs affected by this with both Transition and More Developed areas across its geography. This creates artificial barriers during the delivery of projects. This complexity could be reduced. Government has held some initial UKSPF briefings. PCC has submitted a response to the All Party Parliamentary Group (APPG) on post-Brexit funding for nations regions and local areas call for written submissions from stakeholders. A formal consultation is expected at a later stage.

Within the response to the APPG call, PCC laid out some general thoughts on how funding through the UKSPF should be delivered. For example, regional bodies and local authorities should have a role in shaping the final guidelines and the setting or priorities for the Shared Prosperity Fund. The guidelines should remain broad, enabling the devolved administrations, regional bodies and local authorities scope to target their funding on identified need. A copy of our response is appended.

The inclusion of the HotSW LEP area in the second wave of areas to benefit from working with the Government to develop their Local Industrial Strategy (LIS) is a considerable achievement. In its Industrial Strategy Policy Prospectus the Government has set out how Local Industrial Strategies will help local areas in England decide on their approach to maximising the long-term impact of the new UK Shared Prosperity Fund once details of its operation and priorities are announced following the Spending Review. Local Industrial Strategies are strongly evidence- based long term strategies that focus on raising productivity. The aim of the HotSW LIS will be to double the size of the HotSW economy over the next 20 years.

RECOMMENDATIONS

We should continue to work with Government on developing the UKSPF and input into the development process including through utilising our membership in other organisations and networks such as LGA and Key Cities, within the following broad parameters;-

1. The UKSPF should at least maintain the current value of EU structural funds allocated to the UK and any other funds which may be rolled into it, such as the Local Growth Fund.

2. The UKSPF continue to support regional growth and recognise the productivity challenge we face in the South West.
3. The UKSPF should reduce the complexity of the EU funding streams it will replace whilst ensuring that the specific activities (fishing, rural development etc.) addressed by EMFF and EAFRD are not lost.

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[i] Quoted in "Brexit: moving the conversation on", Published by the LGA September 2018.

APPENDIX 1 – PLYMOUTH CITY COUNCIL ALL PARTY PARLIAMENTARY GROUP ON POST-BREXIT FUNDING FOR NATIONS, REGIONS AND LOCAL AREAS

Overall budget

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

As a minimum, there should be an element of continuity at a time of uncertainty. Agreeing to maintain the level allocated to EU Structural Funds currently will provide reassurance, but also enable the bodies responsible for regional and local economic development to plan and build on current achievements. There is a strong argument for more funding to deal with the regional and local development needs that will arise post-Brexit, as we enter an uncertain period.

EU Structural Funds are currently split in to four separate programmes for the UK (ERDF, ESF, EMFF and EAFRD). A move towards a single programme with one budget will not only reduce bureaucracy, but will enable greater flexibility in project design and delivery through one set of broad criteria. This will eliminate some restrictive eligibility criteria that currently applies within and across the four separate programmes. It is important, however, that the specific activities (fishing, rural development etc.) addressed by EMFF and EAFRD are not lost in a single, larger programme. Provision for these activities must be clear in the new programme, aligned with the sub-regional approach set out in response to Q4.

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

Yes. There is value in maintaining a seven-year programme as it supports medium to long term planning. A programme of this length, with a committed financial allocation, also provides the opportunity for detailed mid-programme review that can adapt to changing circumstances.

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?

Yes (in certain circumstances). Where other budget lines are clearly aligned to the aims and objectives of the UK Shared Prosperity Fund (UKSPF) i.e. Growth Funds, it would be appropriate to 'roll in' these funds. However, this should not come at the expense of any reduction in funding to UKSPF as highlighted in our response to Q1.

The current EU intervention rates and minimum project levels can lead to high levels of 'match' funding required from the applicant. These are not always easy to identify / raise, so providing joint financing at source places the focus on effective project design, not shaping the project simply to meet multiple funders' requirements. If other budget lines are being rolled into UKSPF any potential match funding requirements need to take into account the limited availability of match funding.

Allocation across the country

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

This question assumes that a national split is the only mechanism to allocate funds. We would challenge this viewpoint, as it does not fairly reflect the regional and local disparities across the UK.

At a simplistic level, this places deprived communities (particularly in England) at an economic disadvantage as they compete for funds with more prosperous communities within their nation. For example, due to the relative size of England, the more deprived areas would not receive a fair allocation, as any allocation would be lower due to the impact of the relative prosperity of other areas i.e. London & the South East. Given the government's commitment to the Local Enterprise Partnership (LEP) model then taking the sub-regional approach would, in the longer run, be fairer.

Funds could be allocated locally, but within the context of sub-regional needs. We therefore support an approach that involves working alongside our colleagues in the Heart of the South West (HotSW) and Cornwall & Isles of Scilly (CIOS) LEPs.

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

It is not possible to provide a Yes or No response to this question. Assuming there is time, adopting the approach set out in our response to Q4 would cater for a fairer distribution of funding across the UK. Rolling forward only becomes an option, if there is insufficient time to design a fairer system. In these circumstances, adopting current allocations would be the most practical way to proceed, but it should be a last resort. However, some account needs to be taken of the differing rates of progress since the current programme began, so a needs-based formula is critical.

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

This is a matter for devolved nations. We do not believe we should comment, as it is not appropriate to do so.

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

Yes. ESIF funding aimed to support regeneration of disadvantaged areas and ultimately eradicate structural disparities between regions and improve cohesion. Therefore, disadvantaged areas received more funding than less disadvantaged areas. If UKSPF wants to follow in this tradition, it is important to ensure regional & sub-regional disparities are taken into account when allocating funding. This should be done by assessing the socio-economic needs of localities. The most effective statistical measures include: Indices of Multiple Deprivation (IMD) and Gross Value Added (GVA).

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

No. Funds should be allocated on the basis of need. Regeneration projects usually require a higher intervention and produce fewer outputs. If competitive bidding was established as the way to distribute UKSPF, it would not support the aim of addressing regional structural deficits. However, there should be a minimum quality threshold that should be met before funds are distributed.

Local / regional bodies responsible for funding allocations should always be held accountable. Where there are significant under spends and no clear and costed plans to rectify this, there should be a mechanism (such as competitive bidding) to reallocate funds to other areas.

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

Sub-regional areas should be the basis for allocations. However, going forward complexities should be reduced to a minimum. For example, within some LEPs there are differing allocations based on the three Categories of Region (Less Developed, Transition and More Developed) reflecting local GDP. HotSW is one of the LEPs affected by this with both Transition and More Developed areas across three structural funds (ERDF, ESF and EAFRD); in affect creating six differing funding allocations.

Complexity arises primarily from the multiplicity of programmes. It is important that the future mechanism to allocate funds is also sensitive to sub-regional economic geography to ensure that less prosperous areas continue to receive the level of funding that their specific needs require.

Activities to be supported

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

Yes. This is based on the simple fact that when EU funding comes to an end, there will be a gap in support for regional and local economic development. Some degree of continuity is important, so maintaining economic development and convergence should remain the primary objectives of the new Fund. However, the focus of economic development should move from jobs to productivity, as a more effective measure of growth. The driver behind structural funds was the recognition of the need to address social and economic disparities between and within countries. The investment that these funds has brought has been beneficial, but significant differences remain.

Productivity data from the Office for National Statistics for 2016 highlights the variations between LEP areas. HotSW was the 4th worst performing LEP (approximately 17% below the national average), while the top performing LEP areas were predominantly located in the South East of England. The far South West peninsula continues to struggle, with CIOS the poorest performing LEP in England, 28% below the national average. London (perhaps unsurprisingly) was 34% above average. Ultimately, different areas need different levels of support in order to become more productive and grow.

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

As part of any review, close attention should be paid to the eligibility criteria. Under EU rules, these have been strict and (at times) restrictive. For example, EU rules are very strict in terms of definitions that apply to business. Certain sectors, such as defence and nuclear are currently unable to apply for EU support. These should be considered suitable to fund after meeting any necessary criteria.

Furthermore, individuals and sole traders are also excluded, which is often the first step in business. This ends up meaning that some businesses that contribute towards economic growth cannot be counted as they are deemed as ineligible. Furthermore, boundary lines often prevent eligible activity being counted as it falls one side of a line drawn up by a bureaucracy more focused on creating rules to apply.

The purpose of the new Fund should be to ensure that the aims and objectives of the programme are met. This could involve an expansion of eligible activity based on a broader interpretation of the Fund's aims & objectives agreed during project design. The recent high-profile demise of the high street is an area of activity that could not be supported as it fell outside of the scope of EU funds. A broad and flexible remit would mean that funding could be targeted on areas of economic activity that are currently ineligible for EU funding.

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?

Broadly, No. Funding should be targeted on supporting the activity areas identified within the programme plan for the Fund. This is highly likely to include a number of activities currently funded by the EU, such as training. While we do not believe that formal guarantees are the best way to proceed, we recognise that some targeting of funding is needed to avoid social and economic dislocation. Ultimately, all funding should be based on identified need, not maintaining a status quo.

Management

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

Yes. However, we recognise the importance of Localism and the role that devolved administrations, regional bodies and local authorities have in shaping the final guidelines. The guidelines should remain broad, enabling the devolved administrations, regional bodies and local authorities scope to target their funding on identified need. Consultation on the guidelines should be open and responsive to need, avoiding any separate or extraneous agendas.

There is also the question of what is meant by 'guidelines'. We envisage a system where the UK government establishes a national framework, but the individual bodies responsible for the funding should be able to set their own local priorities and allocate their funding share accordingly.

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

This is a matter for devolved nations. We do not believe we should comment, as it is not appropriate to do so.

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

The current EU system of impacts and outcomes is complex. A more simplified system would be easier to comply with and manage. Both impacts and outcomes should be defined on the basis of the final design of the Fund programme. Measurement need not be as prescriptive as it currently is, with revised guidance on thresholds and qualifying evidence. Accountable Bodies should agree at the outset what level of evidence is acceptable to meet agreed targets and be measured against this.

There are other approaches employed by major funders, such as lottery distribution agencies, that could be used. This employs less focus on individual pieces of 'eligible' evidence and more on project monitoring, reporting on performance and evaluation. This approach ultimately places more emphasis on project impact and less on project compliance; an approach more appropriate to delivering economic growth.

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

Within the HotSW area currently, EU funds are managed by multiple government departments (i.e. MHCLG, DfE, DEFRA) working through the LEP. In creating a single programme, the need for multiple government agencies disappears. There should be a single government body acting as the Managing Authority, with responsibility devolved to LEPs or equivalent bodies i.e. combined authorities.

Reducing the number of required programme outputs and outcomes will help to lower costs as it reduces the level of bureaucracy and administration support needed current for EU funded projects. The approach used by lottery distribution agencies could also be employed to good advantage here.

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

We support the view that local authorities should be accountable bodies (where required) and as either programme or sub-programme managers. This reflects the central role that local authorities have in delivering programmes of work and helping to set local strategies.

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

We have an opportunity to reduce the level of bureaucracy associated with EU funding. While programme monitoring should be the responsibility for the Managing Authority, project monitoring should follow best practice, for example by using a model of delegated authorities. All activities should make provision for internal and external, independent evaluation.

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