Allocation of Regional Development Funding
Pre-White Paper Analysis

Introduction

The Northern Powerhouse Partnership is working with PACE at Teesside University and supported by the Joseph Rowntree Foundation to examine the design, size and regional allocation of the funds to support levelling up through regional development activities.

During the referendum campaign and subsequent Conservative manifestos, it was promised that EU funding for regional development would be replaced. Yet our analysis finds many areas that voted for Brexit in large numbers are at risk of losing the most funding once the final round of EU funding ends and the primary funds for levelling up become the Shared Prosperity Fund (SPF) and Levelling Up Fund (LUF). Overall funding allocated at the recent Spending Review to these two funds is less than was the case under the previous regime of Local Growth Funding (LGF), European Regional Development Funds (ERDF) and European Social Funds (ESF).

Furthermore, if future allocation of the SPF and LUF mimics allocation of pilot funding so far, some areas in need of levelling up would find themselves worse off. For example, unless Treasury Ministers intervene to protect areas such as Tees Valley – one of the most deprived regions in the UK - annual funding could be cut from £46m to £21m per year, a reduction of £37 per person per year. We carried out this work as we are focused on securing a better settlement than the current spending review position represents for those areas across the UK which may be disadvantaged unfairly.

Headline Analysis and Findings

The government is planning to spend less on English regional development than previous Conservative governments (2014-21) despite levelling up being a flagship policy. The annual spending of Shared Prosperity Fund and Levelling Up Fund in England is expected to be around £1.5bn per year. This compares with an annual £2.1bn spend under the ERDF, ESF and Local Growth Fund.

Looking specifically at the SPF, this is planned to be smaller than previous EU funding with approximately £0.7bn per annum allocated to the SPF compared with £1.3bn per annum under the European Regional Development Fund (ERDF) and European Social Fund (ESF). It is the case that those communities in greatest need in England will be significantly worse off post Brexit than they were before we left the European Union, with this funding stream particularly critical in the aftermath of previous economic dislocations such as the closure of the coalfields in South Yorkshire and many other regions.

It is not just the total amount of funding but also how it is allocated that is concerning, if future allocations mimic the allocations so far via the Community Renewal Fund (CRF – the pilot phase for the SPF) and LUF, some places most in need of levelling up are at risk of a substantial reduction in funding for regional development, compared to when the UK was part of the EU.

Below is the implied annual allocation of SPF and LUF per northern sub-region as linked to Local Enterprise Partnership area. This is based on the assumption that the devolved nations and Cornwall have their funding protected in cash terms as promised in the Conservative manifesto[1] and restated at the last Spending Review[2].

- Most sub-regions of England, except Cornwall, are at risk of seeing their regional development funding cut.
- In the Tees Valley, annual funding could be cut from £46m to £21m, a reduction of £37 per person. In the Leeds City Region funding will fall from £149m per annum to £72m, a cut of £78m per year which equates to £33 per person.
- This is not uniquely a northern problem; London will see annual funding cut by £92m.
- For England overall funding could be cut by £700m with over £300m of that cut being felt across the north of England.

Local Enterprise Partnerships	**Implied annual allocation of SPF and LUF (£m, assuming devolved nations and Cornwall protected)**	**Previous annual funding (£m)**
Cheshire and Warrington	0.0	46.9
Cumbria	15.3	20.3
Greater Manchester	93.1	147.8
Hull and East Riding	18.9	33.3
Lancashire	49.2	79.8
Leeds City Region	71.6	149.2
Liverpool City Region	76.6	76.3
North East	82.3	123.1
Sheffield City Region	99.0	77.8
Tees Valley	20.7	45.8
York and North Yorkshire	1.3	29.9

Detailed Analysis and Findings

We began by examining if announced funding for regional development will match the levels previously available from EU funding and the LGF. We then considered whether the northern regions of England are at risk of receiving a smaller share of the funding than they did in the previous funding environment.

We looked at the difference between the following combinations of funding streams and calculated the implied annual allocation across the three-year spending review period:

1) EU funding + Local Growth Fund 2014-20/21 (the Local Growth Fund was the main England-wide regional development funding stream).

[1] Conservative Party (2019), *Conservative Party Manifesto 2019*, p44. Available at https://www.conservatives.com/our-plan/conservative-party-manifesto-2019

[2] HM Treasury (2021), *Autumn Budget and Spending Review 2021*, p88. Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1043688/Budget_AB2021_Print.pdf

compared with

2) The Shared Prosperity Fund + Levelling Up fund (the two big regional development funding streams detailed in the spending review for the next three years).

From our analysis it is clear that the government is planning to spend less on English regional development than was the case under May or Cameron Governments (2014-21) despite levelling up being regularly touted by Conservative ministers as a flagship policy. Across England we would expect £1.5bn to be spent per year under the SPF and LUF compared with £2.1bn for under the previous funding arrangements.

However, the government has repeatedly committed to ensure funding through the SPF at least matches the size of EU funds in Scotland, Wales, Northern Ireland and Cornwall, which we have assumed to be on a cash basis. This implies a total pot of funding from SPF and LUF in England of £1.4bn of which we have assumed that £87m will be earmarked for Cornwall as their funding has also been protected[3].

We then looked at the allocation of the Community Renewal Fund (the pilot for the SPF) and the LUF funding so far to different areas of England. If distribution to date is a good guide to the future, this would mean that not only is the overall funding pot for regional development in England smaller than previously, but the North of England would see a larger per-person per-year reduction than the England average.

Criteria for prioritisation and competitive bidding

Some places in greatest need of levelling up risk seeing a reduction to funding. The criteria for prioritising the Community Renewal Fund and the Levelling up Fund and the competitive bidding process have combined to produce a distribution of funding which in our opinion does not sufficiently address need. If future distribution followed this pattern, some places most in need of levelling up would receive less funding than before.

The EU funds were allocated to places using a needs-based formula. In England, the UK government and subnational institutions (most recently Mayoral Combined Authorities and Local Enterprise Partnerships) agreed programmes within that regional envelope. This was consistent with the government's focus on "functional economic market areas" (FEMA) and the idea of working at a wider strategic level rather than having inefficient competition and duplication between local councils.

The new funds so far have been targeted at these smaller local authority areas, and allocated through centrally administered competitive bidding rounds. This raises questions around the geographic scale of levelling up and the role of regional bodies, particularly mayoral combined authorities. It also could present difficulties in coordinating levelling up efforts at a larger functional economic scale. Competitive bidding is also not conducive to the strategic planning that is needed for levelling up to be delivered. Competitive bidding takes up large amounts of civic institutions time and resources, especially if there are multiple bids from different funding pots. There is also a concern that this approach could be influenced by short term political trends and Whitehall priorities

[3] HM Treasury (2021), *Autumn Budget and Spending Review 2021*, p88. Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1043688/Budget_AB2021_Print.pdf

rather than reflecting more long-term local strategy. The Treasury spending periods of three years lack the certainty of the seven-to-ten-year EU funding period.

How should regional development funding be allocated?

Allocation of funding should be delivered on a long-term basis and from a single funding pot. The Secretary of State has pointed to the "taper in" period for the SPF which will reach £1.5 billion per annum in the final year of the spending review period, while programmes paid for by the remainder of the 2014-2020 EU funds are completed over the next two years.

However, EU funds were guaranteed for seven years, which allowed for long-term planning. In contrast, the shared prosperity fund only reaches its "full" value in year three with no indication that it will continue. This means that while places would have previously been designing seven-year programmes, there is currently only the certainty of funding for one year. Previous investigations and reports (e.g. No Stone Unturned[4]) advocate a longer-term single fund for regional development

Funding from one pot offers transparency and clarity as to the amount of funding available and gives regions a clear idea of how much they can expect to receive and what it is to be used for.

Based on our findings many northern and other higher need combined authority and wider sub regions are at severe risk of being short-changed by the new funding programmes. Instead, we believe that funds should be allocated according to the following three principles:

1. **Allocation of the funding should be needs based using economic criteria and prioritise the areas most in need of levelling up.**

   The UK economy is in need of rebalancing and post pandemic we are more regionally divided than ever.

   For the last thirty years, the North's GVA per capita has been consistently about 25% below the average for the rest of England, and 10-15% below the England average (excluding London). A persistent economic gap exists between the North and the national average. The Northern Powerhouse Independent Economic Review found that productivity accounts for the largest proportion of the 'performance gap' with the rest of England. The main factors driving this productivity gap were identified as insufficient high-skilled workers and too many low-paid and low-skilled workers (including low paid, part time and zero hours contracts); not enough exploitation of innovation and technology; lower levels of investment; lower levels of enterprise; lack of agglomeration; and sub-optimal transport links and underinvestment in transport.

   We need an economy that works for all the UK. Previous EU Structural Funds were allocated based on the level of economic development of regions compared with the EU average GDP per head. The economic criteria we should use to address regional imbalances need to include productivity, measured by GVA per hour or GVA per job. However, productivity is not an end in itself, and a growing economy alone is not sufficient to improve the living standards of the least well off. The way in which growth translates into employment is central because work remains the best route out of poverty. But with in-work poverty on the rise, it is also essential to look at earnings alongside the number of people in work. Together these two indicators are what really matter for the living standards of low-income

[4] Heseltine, Lord (2012), *No stone unturned: in pursuit of growth*

households, making them key criteria. Finally, there is also an argument for including a measure of skill levels in the population, as this ultimately affects productivity and the issues of inequality which are such a significant barrier to the sustainable success of a place's economy as well as their intrinsic damage.

Whichever economic and social indicators are used, it's clear that regional economic imbalance in England continues to grow. For trust to remain across all levels of governance, when allocating funding the government must be transparent and honest on the methodology for allocation used, and not claim areas are receiving funding which matches previous settlements when they are in fact not.

Furthermore, it is also critical that there is flexibility and autonomy within the funding. City and wider sub-regions must be free to spend the money as they decide, in line with local economic challenges, focused on what will be effective in the circumstances to maximise impact including tackling poverty.

2. **Allocation of the funding should be done at sub-regional level rather than centrally administered via a competitive bidding pot**

   Centrally administered competitive bidding is not conducive to strategic planning, particularly when targeted at local councils rather than combined authorities (or LEPs). Allocation of funding should be done at sub-regional level as decisions are best made closer to the people they affect. Competitive bidding can take up large amounts of local and sub-regional governments time and resources – whereas when funding is allocated on a long-term basis and from one pot it makes the process more streamlined. Competitive bidding does not guarantee funding – this approach is not a fair way to administer important funding.

3. **How funds are spent should be decided by institutions covering functional economic areas.**

   How to use the funds within each sub-regional envelope must be decided in places and is best delivered by Mayoral and combined authorities. We need full autonomy away from Whitehall and in the hands of those with devolved powers, rather than smaller allocations to local authorities. Decisions are best made closer to the communities they affect but with the scale to deliver with efficiency. Top slicing of funds to support national programmes is a threat to be avoided, otherwise the available funds will be reduced even further once opened to be accessed.

   It's clear that civil servants have attempted to construct a fair allocation formula for each of the funds. However, the new funds have so far been primarily targeted at local authorities. This raises questions around the geographic scale of levelling up delivery and the role of sub regional bodies, particularly mayoral combined authorities. Allocations to local authority areas rather than combined authorities could limit efforts to level up – presenting difficulties in coordinating efforts at the scale of functional economic travel to work areas. For levelling up to have the impact the government wants it needs to be done on a large scale and to do this we need a joined-up approach, especially across the Northern Powerhouse. For areas to take advantage of levelling up it needs to be done at combined authority level with mayors who have a regional view with ambitious plans for the whole of the region, not a smaller local authority.

Conclusion

We found that the overall funding pot for SPF and LUF is smaller than previous funding arrangements and that the north of England is at risk of seeing double the per-person per-year reduction than the England average. The implied annual allocation across the three-year spending review period suggests that on a per head basis Cheshire and Warrington, Leeds City Region (largely constituted by West Yorkshire Mayoral Combined authority) and the Tees Valley are places which would lose out severely by £50, £33 and £37 per head respectively.

We believe that the SPF should be allocated by:

1. Prioritising the areas most in need of levelling up.
2. That allocation of funding should be done at sub-regional level based on need rather than centrally administered via a competitive bidding process.
3. How funds are spent should be decided by institutions covering functional economic areas.

We hope the levelling up white paper will offer transparency on the SPF allocation. Basing the methodology for the SPF allocation on need is the critical pre-requisite for Levelling Up as it will ensure the North doesn't lose out and go some way to tackling regional inequalities.

It must be clear what is new money and where funding has simply been moved from an existing pot, to avoid any smoke and mirrors.

We hope to see combined authorities and emerging County Deals coming with power over regional development funding and the autonomy to spend it as they decide, in line with placed based challenges including importantly those causing poverty**.**

Annex A – Methodology

We looked at the difference between two combined pools of money and their geographical allocations:

1. EU funding + Local Growth Fund 2014-20/21 (the Local Growth Fund was the previous big England-wide regional development funding stream).
   compared with
2. The Shared Prosperity Fund + Levelling Up fund (the two big regional development funding streams detailed in the spending review for the next three years).

We removed the protected regions allocations from the new funds by dividing the EU cash allocation by seven to get an annual amount then applying this to the three-year spending review period.

For the EU funding allocation we used the original regional allocation of EU funds in the Secretary of State's Letter in 2014
https://www.gov.uk/government/publications/eu-structural-funds-uk-allocations-2014-to-2020

Local Growth deal allocations are in the public realm
https://www.gov.uk/government/collections/local-growth-deals

The Levelling Up fund and Community Renewal Fund allocations are in the public realm and we allocated these to LEP areas where appropriate based upon existing boundaries
https://www.gov.uk/government/publications/uk-community-renewal-fund-successful-bids
https://www.gov.uk/government/publications/levelling-up-fund-first-round-successful-bidders

Data on future funding is taken from the Autumn 2021 spending review
https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents

Local Growth deal allocations are in the public realm
https://www.gov.uk/government/collections/local-growth-deals

Per person allocations use the latest ONS mid year estimates

To convert the EU funds for Euros we used the latest yearly average exchange rate
https://www.gov.uk/government/publications/exchange-rates-for-customs-and-vat-yearly