FUTURE OF THE UK SHARED PROSPERITY FUND
Recommendations

Context and choices

The UK Shared Prosperity Fund was established to replace EU funding to the UK's nations, regions and local areas. The 2021 *Spending Review* set a UKSPF budget of £2.6bn through until the end of March 2025 and the investment plans for local areas were approved in December 2022. The first round of the Fund is therefore now firmly in place.

But what should come next, beyond March 2025? More of the same? A revised version of the current fund? Or, given the UK government's intention to streamline Levelling Up funding (of which the UKSPF is part), should the UKSPF simply be merged into a much bigger Levelling Up funding pot?

At present there is no clear view from government or other players as to what should happen beyond March 2025. This note sets out recommendations.

The case for a separate UKSPF

Streamlining the architecture of Levelling Up funding has attractions especially if it is linked to a move away from competitive bidding, which is widely regarded as wasteful of time and effort and not very good at delivering better outcomes. Indeed, streamlining is widely supported by local authorities. However, in the context of the UKSPF there are potential drawbacks.

The benefits of a separate UKSPF Tranche 2 are:

- It would visibly honour the political commitment to replace EU funding. If the UK had remained within the EU, the nations and regions of the UK would at this point have had guaranteed EU funding through until the end of 2027.
- In purpose and allocation, the UKSPF more closely aligns with the aim of regional and local economic development than any of the UK government's other Levelling Up funds. The EU funds themselves were always intended to narrow the gaps in prosperity between local economies – arguably the core of Levelling Up.
- Unlike all the UK government's other Levelling Up funds, which have been allocated by competitive bidding or (in the case of the Towns Fund) by invitation only, the UKSPF has been wholly allocated by formula.

- The allocation to date of the UKSPF strongly targets less prosperous local economies. The per capita allocation to Wales, for example, is almost twenty times greater than the allocation to South East England. None of the other Levelling Up funds match this strong skew.

- It's difficult to see how a merger of the UKSPF into other Levelling Up funding streams would work in the devolved nations, where several of the present funds do not apply and where the devolved administrations also run their own programmes.

Putting aside other considerations, it would seem to be in the best interest of Britain's less prosperous areas to argue for a second tranche of the present UKSPF.

The case for reform

Tranche 1 of the UKSPF is nevertheless imperfect, so there is anyway a case for sensible reform.

- Local and regional economic development needs to be reaffirmed as the aim. The purpose of the Fund has been somewhat diluted – indeed the UK government now argues that the UKSPF "is not a direct replacement for the EU structural funds". It need not be a direct replacement in detail but promoting jobs, productivity and growth in less prosperous local economies should remain the key objective.

- The financial allocations in Tranche 1 are driven by out-of-date statistics. The UK government essentially replicated the 2014-20 allocation of EU funding to sub-regions, which means that by 2025 the underpinning data will be fifteen years old. Several areas with deteriorating economic data have already lost out as a result. To command confidence and support, the updating of statistics and associated formulas should be open to consultation and scrutiny prior to deployment.

- The duration of funding is too short. It is impossible to deliver transformational projects, especially capital spending, within just two or three years. Local players need early notification of financial allocations for planning purposes and longer timeframes for delivery.

- Funding should not be pre-emptively allocated to specific initiatives, as has been the case with the Multiply adult numeracy programme within UKSPF Tranche 1. It should be for local partners to identify local priorities. Nor should there be a specific requirement for matching finance.

- The devolved administrations should be fully involved in setting the strategic priorities and in the allocation and management of UKSPF funding. In contrast to previous practice, this has not been an integral element of Tranche 1 even though the devolved administrations are major players in their own economies.

How much, for how long?

UKSPF funding presently builds up to £1.5bn a year in 2024-25, when legacy EU spending finally drops out of the picture. At the time this figure was set in 2021 it roughly matched in real terms (i.e. after allowing for inflation) the EU funds being replaced.

Beyond March 2025, to maintain the same level of spending would require an on-going UKSPF budget of £1.5bn a year, uprated for inflation. If the inflation adjustment were to be 20 per cent (not unreasonable perhaps), UKSPF spending from 2025 onwards would need to average at least £1.8bn a year, or £5.4bn over a three-year spending round.

This would still not be a full replacement for EU funding. Adding £5.4bn to the existing three-year allocation of £2.6bn would bring the cumulative UKSPF total to £8bn by 2027-28. Using the government's own figure (£1.5bn a year) a seven-year EU funding cycle through to the end of 2027 would have been worth £10.5bn, plus a further adjustment for recent inflation of perhaps £1bn bringing the total to around £11.5bn. The main reason for the gap (some £3.5bn) is that some of the EU funding would have been carried forward to pay for spending in the following years.

Rolling forward spending in this way is hugely advantageous in delivering capital projects because it allows commitments to be made to major schemes that take time to get off the ground and deliver. From the Treasury's point of view, rolling forward a portion of spending still enables annual expenditure to be held within limits. It is an approach that should be adopted with the UKSPF.

To match previous EU funding and thereby honour political commitments, in addition to an allocation of £5.4bn to be spent over the next three-year spending round an additional £3.5bn should therefore be earmarked in Tranche 2 for spending commitments running on beyond the end of the spending round.

The case for a 'minimum guarantee'

If as part of the streamlining of Levelling Up funding it proves impossible to maintain a separate identify for the UKSPF, the way to carry forward as many benefits as possible would be to establish a 'minimum guarantee'.

Under a 'minimum guarantee', all parts of the country would be guaranteed to receive not less from the UKSPF funding rolled into the Levelling Up pot than they would have received if the UKSPF had continued to operate as a separate funding stream.

In effect, this would be a 'fund within a fund' with its own allocation formula but all areas would be reassured that they would not be disadvantaged by the changeover to a streamlined funding system. In terms of spending, however, as part of a new streamlined pot there would presumably be local flexibility to move funding from one project to another within a broad framework of goals set by government.

Conclusions and recommendations

The way forward for local authorities in Britain's older industrial areas is to argue for a second tranche of the UKSPF, with reforms to improve on Tranche 1.

Tranche 2 of the UKSPF needs to be worth at least £1.8bn a year to match current spending and should include an additional £3.5bn to for commitments running on beyond the end of the spending round.

The fall-back position should be that, if the UKSPF were to be merged with other Levelling Up funding streams, there should be a 'minimum guarantee' that no part of the country should be worse off than if the UKSPF had continued to operate as a separate funding stream.

Industrial Communities Alliance
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Industrial Communities **Alliance**

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