UK SHARED PROSPERITY FUND
Proposals for a second tranche

The UK Shared Prosperity Fund (UKSPF) was established to replace EU funding to the UK's nations, regions and local areas. The 2021 *Spending Review* set a 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 now firmly underway.

But what should come next, beyond March 2025? More of the same? A revised version of the current fund? Or should the UKSPF simply be merged into a much bigger levelling up funding pot?

This note sets out proposals.

The case for a second tranche

1. On-going local and regional disparities

It is widely accepted that the UK remains one of the advanced economies with the largest gaps in prosperity between different parts of the country. This is not the place to set out the data, but it includes big local and regional differences in GVA per head, earnings, employment rates and benefit claimant rates. If anything, the gaps have been growing, with London experiencing faster job growth than the main regional cities and still faster growth than older industrial towns. In the absence of regional aid, which over the years has unquestionably helped deliver jobs and growth in many places, these gaps in prosperity would be even worse.

2. The UKSPF's focus on growth and jobs

In purpose and allocation, the UKSPF more closely aligns with regional and local economic development than any of the UK government's other levelling up funds. UKSPF Tranche 1 prioritises 'investment in people', 'investment in communities and place' and 'investment for local business'. Indeed, the EU funding that the UKSPF replaces was first and foremost intended to narrow the gaps in prosperity between local economies. By contrast, the UK government's other levelling up funds, including the Towns Fund, the High Streets Fund and the Levelling Up Fund itself, focus much more on activities such as the renewal of town centres.

3. The failure so far to match EU funding

The UK government's intention is that by the 2024-25 financial year UKSPF spending will have ramped up to the roughly the same level in real terms as the EU spending it replaces – £1.5bn a year. However, if the UK had remained an EU member, at this point in its seven-year budgetary cycle the EU would have already allocated funding to the UK through until the end 2027. Taking the UK government's £1.5bn a year as a guide, the 2021-27 allocation might have been £10.5bn in total. This compares to just £2.6bn that has so far been allocated to the UKSPF.

Why the UKSPF needs to be kept separate

Streamlining the architecture of levelling up funding has attractions, especially if it is linked to a move away from competitive bidding. However, even if some of the other levelling up funds were to be merged there are benefits in maintaining a separate second tranche of the UKSPF:

- It would visibly honour the political commitment to replace EU funding.

- It reflects the UKSPF's distinctive purpose and focus.

- Unlike the other levelling up funds, which have been allocated by competitive bidding or by invitation only, the UKSPF has been wholly allocated by formula.

- The allocation 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.

The scope for reform

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

- The allocations in Tranche 1 were 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 (e.g. South Yorkshire, Tees Valley and Durham) 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 capital projects within just two or three years and revenue-funded projects are badly damaged by the resulting insecurity for staff. 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 Tranche 1. It should be for local partners to identify local priorities.

- There needs to be a mechanism to access UKSPF funding for organisations that operate across local authority boundaries, for example in delivering employment support and voluntary sector services. Agreeing deals with a multitude of neighbouring small authorities has proved a largely impossible task. Likewise, organisations such as universities in Wales, which previously delivered region-wide EU-funded business support and R&D, have found it nigh-on impossible to access UKSPF funding.

- 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.

The geography of UKSPF financial allocations needs more thought. In England, each combined authority received a Tranche 1 allocation but these were underpinned by published figures for each constituent authority, which has created local tensions and expectations and worked against the implementation of strategic projects. Elsewhere in England the allocation was to unitary authorities and shire districts, which generally cover only part of a local labour market or functional economic area, making meaningful interventions in the local economy very difficult. In Scotland and Wales the UKSPF allocation to unitary authorities failed to reflect the growing role of city-regions.

EU funding had previously been allocated at the sub-regional scale at which most local economies operate.

How much, for how long?

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 Tranche 1 allocation of £2.6bn would bring the cumulative total to £8bn by 2027-28 – still well short of the £10.5bn that, on the basis of the UK government's own figures, might reasonably have been expected from a seven-year EU spending round covering 2021-27.

The reason for the gap (£2.5bn) is that some of the EU funding would have been carried forward to pay for spending in the following three years – i.e. up to the end of 2030. This was a normal feature of EU funding. Indeed, the UK continued to spend large sums from the 2014-20 EU budget round until late in 2023. Rolling forward spending in this way is hugely advantageous in delivering capital projects in particular, because it allows commitments to be made to major schemes that take time to get off the ground and deliver.

The transition from EU funding to the UKSPF has been a step backwards in this respect. Instead of liberating the UK from unnecessary bureaucracy, the short-term financial allocations from the Treasury and year-by-year budget lines have imposed a whole new layer of requirements on local partners. Tight spending deadlines need to be met and it is the projects that can be delivered quickly that get the go-ahead rather than those that offer the best value for money.

From the Treasury's point of view, rolling forward a portion of spending still enables annual expenditure to be held within limits. It does not increase total spending. Nor would it be a novel experiment because there is more than thirty years' experience in managing EU-funded spending in this way and there are other areas of public spending (e.g. major infrastructure projects, defence procurement) that already involve commitments across more than one spending round.

Rolling forward a proportion of spending is an approach that should be adopted with the UKSPF. If the aim is to match previous EU funding in real terms, in addition to an allocation of £5.4bn to be spent over the next three-year spending round an additional £2.5bn (plus a further adjustment for inflation) should be earmarked for spending running on beyond the end of the spending round.

Conclusion

There should be a reformed second tranche of the UKSPF, separate from other levelling up funding, worth £5.4bn in the next three-year spending round with an additional minimum of £2.5bn committed to spending running on beyond the end of the spending round.

Industrial Communities **Alliance**

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