

**6 November 2018**

**EU Funding Update**



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**Report of Ian Thompson, Corporate Director, Regeneration and  
Local Services**

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**Purpose of Report**

1. The purpose of the report is to provide an update, since the last report in September 2017 to Overview and Scrutiny, on the current status of the EU Structural and Investment Funds Programme.

**Background**

2. The European Structural and Investment Fund (ESIF) programme for 2014-2020 programme period allocated circa €537 million of funding for the North East LEP area, this includes a ringfenced allocation of €157 million for County Durham as a Transition Region. Following a recent uprating of the sterling value in August 2018, the ERDF allocation for Durham has increased from £74m to just over £86m, and there has also been an increase in the ESF allocation to £69m, this includes an additional £9m to fund the recently approved three-year extension to the YEI DurhamWorks scheme. This now gives a current notional allocation for County Durham of £154m. In addition to this funding, the County also benefits from a share of £10.5m EAFRD to support rural development in the NELEP area, and has two LEADER programmes worth £4m, delivering capital grants to support businesses, farming, tourism and services within rural areas of the County.
3. Following the referendum in June 2016, the Government announced that it would guarantee and approve EU funding for Structural and Investment Fund projects, including agri-environment schemes, to the point at which the UK departs the EU. In July 2018, this was strengthened by the Government confirming that any funding that projects secure through EU programmes, from now until the end of 2020, will be guaranteed by the UK government even in the event of a no deal Brexit scenario.
4. In light of this 'business as usual' position work has continued with partners to support the development of project applications and develop a pipeline of activity. There are currently a number of open calls out, inviting project applications for ERDF, as well as a review of the current opt ins with a view to extending these contracts.

**Current Spend Position**

5. Significant work has been undertaken by the County Durham Economic Partnership's ESIF work streams, supported by the Funding and Programmes Team, to realise the opportunity and commit ESIF funding in County Durham. The tables below show the current ESIF allocation for County Durham by Priority Axis, the value of contracted projects that have been approved and are in delivery, projects within the pipeline that have submitted either full or outline applications, and the balance of allocation remaining to be committed.

ERDF	Innovation £million	SME Comp £million	Low Carbon £million	Climate Change £million	CLLD £million	Total £million
<b>Allocation</b>	<b>18.25</b>	<b>35.92</b>	<b>21.2</b>	<b>3.24</b>	<b>1.7</b>	<b>86.3</b>
Contracted	9.23	22.39	2.13	-	1.7	35.5
Pipeline	3.24	8.13	0	3.24	0	14.6
<b>Commitments</b>	<b>12.47</b>	<b>30.52</b>	<b>2.13</b>	<b>3.24</b>	<b>1.7</b>	<b>50.1</b>
<b>Balance</b>	<b>5.77</b>	<b>11.08</b>	<b>19.07</b>	<b>0</b>	<b>0</b>	<b>35.9</b>
<b>% remaining</b>	<b>32%</b>	<b>38%</b>	<b>79%</b>	<b>0%</b>	<b>0%</b>	<b>42%</b>

ESF	Inclusive Labour Markets					Skills for Growth		Total
	1.1	1.2	1.3	1.4	1.5	2.1	2.2	
<b>Allocation</b>	7.26	6.61	12.78	8.98	1.98	19.37	3.51	60.49
Committed	6.17	5.40	12.78	5.48	0.013	15.68	2.34	49.68
Difference	1.09	1.21	0	3.5	1.96	3.68	1.17	10.8
<b>% remaining</b>	15%	18%	0%	39%	99%	19%	33%	18%
			+ an additional £9m to fund 3 yr extension					£69m

6. As of the end of September 2018, a total of £35.5m ERDF has been contracted in County Durham, with a further £14.6m ERDF in full applications, this represents an overall commitment of £50m (58%), leaving a balance of £35.9m.
7. In County Durham, £27m of ESF is contracted in County Durham, this includes projects that have received grant offer letters and Opt Ins that have been agreed at ESIF Sub Committee. There is a further £32m in commitments in either full applications or extensions to Opt In contracts that are due to be considered shortly. The resource remaining is currently £10m (18%).

### Open Calls

8. There are currently three ERDF calls for projects currently open, with a deadline of 23 November 2018, as follows:
  - PA1 Promoting Research and Innovation – call value £5.7m
  - PA3 Enhancing the competitiveness of SMEs – value £11m
  - PA4 Supporting the shift to a low carbon economy – value £19m
9. It is anticipated that there could be five new applications submitted by Durham County Council in response to these ERDF calls, these will be both for continuation of existing successful projects and new activity, around early stage business support and growth, sustainable transport and low carbon.
10. Further ERDF calls may be launched in March 2019 if there is still ERDF resource available. It is not currently known when further ESF calls will be launched, however a number of existing Opt Ins contracts are being reviewed, with a view to extending them.

11. The County Durham Economic Partnership continues to oversee the pipeline of projects within County Durham, with support provided locally to projects by the Funding and Programmes Team. It is currently working with partners to raise awareness of the opportunity for funding through these open calls and is providing advice and support to develop project applications.

## **Durham County Council Projects**

12. The County Council has submitted a number of applications for ESIF Funding, as follows:

### Approved projects

- *Youth Employment Initiative (YEI)*

DurhamWorks is a programme led by Durham County Council in partnership with external Delivery Partners. It supports 15-24-year-old unemployed County Durham residents into employment, education or training through intensive and long-term support; innovative and engaging activities to develop motivation, work-related skills and work experience and increased employment opportunities. An extension to the project was approved in August 2018, to allow a further three years of delivery, together with an additional £9m ESF grant. ESF Grant - £21,78m, Total Project - £29m

- *Community Led Local Development (CLLD) Preparatory Stage -*

Preparatory funding to develop Local Development Strategies and establish Local Actions Groups for two CLLD areas within County Durham – North Durham and South Durham. The completed strategies were approved in Summer 2016, consequently allowing full applications to be submitted for the two CLLD areas (see below). ERDF Grant £7,130 per CLLD, ESF Grant £6,900 per CLLD

- *Community Led Local Development (CLLD) Implementation*

CLLD aims to increase employment and skills, social enterprise, and social inclusion in order to support the social regeneration of deprived areas. There are two programmes delivering within North Durham (Stanley, North Chester le Street and the western edge of the Derwent Valley AAP area) and South Durham (Bishop Auckland, Shildon and Spennymoor). It is a specific tool for managing ERDF and ESF in a complementary fashion at a local level to provide for smaller community led interventions in a similar way to LEADER. North Durham - ERDF £744,202, £ESF 780,101, Programme Total £2.36m South Durham – ERDF £986,501, ESF £1,019,899, Programme Total £3.1m

- *Business Energy Efficiency Project (BEEP)*

The project will provide an intensive package of support for SMEs on energy efficiency, renewable energy and business resilience to reduce greenhouse gas emissions and bottom line costs, enhancing competitiveness and supporting business growth. In association with the Durham Business Opportunities Programme, one to one best practice support, training and expert technical advice will be provided, backed by an interactive website and a programme of peer to peer business events and social media. A package of energy audits and financial grant support will encourage and enable businesses to take up no/low cost measures and to install appropriate technologies. ERDF Grant - £533,887, Total Project - £890,811

- *Durham Business Opportunity Project (DBOP)*

The project will provide a 3 year programme of business support to encourage and enable SMEs in County Durham to grow, through engaging the businesses and connecting them to opportunities. The project will focus on identifying potential market opportunities for businesses and helping them to realise these opportunities. The project will help to increase the demand for and take-up of regional/national business support products (where available) by County Durham businesses, and will fill gaps in the business support offer, where identified needs of County Durham businesses are not being met. This will result in better-connected, more competitive SMEs. ERDF Grant - £624,056, Total Project - £1,040,095

- *Community Enterprise*

The project aims to increase sustainable community enterprises and increase the number of people in the County who are enterprise ready. It will target both new and existing community enterprises with the potential to grow and employ more people. ERDF grant £525k, Total project £875,000

- *SME Digital Engagement Programme*

This is a three year programme of support to SMEs to improve their competitiveness through take up of digital technology. The aims of the project are to: engage and energise businesses to consider how they can improve their business by adopting digital technologies, remove the practical and financial barriers to businesses in doing so and embed a culture where the desire and ability to exploit digital technologies becomes a core business skill. ERDF grant £2.4m, total project £4m

- *Durham Internships and Collaborative Enterprise*

The County Council is a delivery partner in a Durham University led project. There are three strands of support. Durham University is leading on developing a start-up academy providing a structured programme of support for students/graduates and a part funded internship scheme placing student/graduates into employment. Durham County Council is leading on developing an enterprise incubator, based at Salvus House with an associated accelerator programme of intensive and bespoke support. ERDF grant £613k

- *Solid Wall Insulation Innovation (SWii)*

The project will deliver a 'whole place' energy efficiency pilot programme in 210 fuel poor homes in two Durham former mining villages of South Moor and Evenwood that will specify develop and train – innovation solid wall insulation product system – next phase domestic smart heating control and peer to peer community energy efficiency, advice and support. ERDF £1.5m, Total project £2,510,704

## Full Applications

13. The following projects have submitted full applications and are currently in appraisal:

- *Chester le Street Flood Alleviation Scheme*

The Chester le Street Flood Alleviation scheme aims to reduce flood risk to the businesses and properties around the Cong Burn River. It will include daylighting 90m of twin bore culvert, providing landscaping, footpaths and seating areas in the new 'blue green' space for public use. ERDF £3.24m, total project £4,68m

- *County Durham Growth Fund*

The project will provide grant support to SMEs in County Durham for capital investment projects to stimulate and enable sustainable business growth, based on a successful model previously delivered through the 'Let's Grow' programme. ERDF £6.09m, total project £15.2m

- *Durham Advance*

The project will offer a comprehensive package of advice, guidance and support to participants targeting those with health conditions and the over 50s. ESF £1.5m, total project £2.3m, total project £2,5m

- *LINKCD*

The LINKCD project will work with 1252 participants in County Durham using a caseworker model for delivery, providing a tailored package of support to participants including those with protected characteristics, workless housing tenants and offenders and ex-offenders. £2m, Total Project £3.33m

- *DurhamDirections*

The project will work to prevent young people from becoming NEET and address youth unemployment amongst vulnerable groups. Total ESF request £4.78m. The application for this was submitted before it was clear that the DurhamWorks project would be extended. Discussions will take place with DWP as to how to progress with the preventative activity proposed in this project that cannot be delivered through DurhamWorks. There the total value of this project will reduce significantly.

14. A list of all ERDF and ESF projects that have approved and delivering activity in County Durham is attached as Appendix 2.

## **LEADER and EAFRD**

15. The LEADER Programme is a separate European Union initiative funded through RDPE, to support rural development projects initiated at the local level in order to revitalise rural areas and create jobs. There are two LEADER areas within County Durham and following a recent uprate in the sterling value, leading to an approximate 10% increase, the current programme budgets are: Durham Coast and Lowlands - £1.74m and North Pennine Dales - £2.34 million. Local Action Groups have been established, bringing together individuals from local public, private and community sectors. The Group is responsible for establishing the strategy and direction of the Programme and decision making; approving all project applications. The County Council is the Accountable Body and manages and administers the LEADER Programme. All applications for LEADER funding have to be approved by the end of March 2019, although projects have until December 2020 to complete the project and submit grant claims.

16. To the end of October 2018, the Durham Coast and Lowlands Local Action Group has approved 28 projects drawing down a grant of over £786k, creating 28 jobs. There are a further 12 projects at full application stage worth over £675k which would take up the remaining LEADER budget. There is also a reserve list of six projects that could be brought forward should resources become available.
17. There have been 25 projects approved within the North Pennine Dales LEADER Programme, drawing down £742k grant and creating 38 jobs, a further 20 projects are currently in the progress of developing full applications worth £1.2m, which are due to be considered in the coming months. If approved these would leave a balance of just £20k, 1% of the programme budget. Work is continuing on both programmes to ensure funding is maximised, and it is currently expected that the Programme will fully commit the allocation by the end of March 2019. These projects are in line with the LAG's priorities of developing rural tourism and supporting Micro and Small Enterprises and Farm Diversification within the LEADER areas.
18. The European Agricultural Fund for Rural Development (EAFRD) worth a total of £10.5m to the NELEP area supports the development and growth of SMEs, tourism infrastructure and food processing within the designated rural areas of Durham, Northumberland and rural Gateshead. The Programme closed at the end of May 2018. To date, £2.14m has been contracted (of which £1.1m has been approved in Durham, funding 1 food processing, 8 business support and 3 tourism projects). There is a further £1.6M in full applications currently being assessed and £7.3m in pipeline applications in development.

#### **Future Funding post Brexit – UK Shared Prosperity Fund**

19. The Conservative Party announced in its 2017 manifesto to create the UK Shared Prosperity Fund (UKSPF) to replace the money that local areas in the UK currently receive through European Structural Funds. On 24 July 2018, the Secretary of State, James Brokenshire submitted a Written Ministerial Statement which provided further information, clarifying that the objective of the UKSPF would be to 'tackle inequalities between communities by raising productivity, especially those parts of our country whose economies are furthest behind'. The statement promised that administration of the UKSPF would be simpler than that for current EU funds and that Local Industrial Strategies will be the key mechanism for identifying and prioritising funding needs.
21. The statement confirmed that Government would work with all mayoral combined authorities and LEPs to develop Local Industrial Strategies (LIS) over a phased approach, with all Local Industrial Strategies across England agreed by early 2020. This is supported by a review into LEPs, which made recommendations to strengthen them in the context of their role in delivering economic growth funds. The North East LEP is in the next wave to develop its LIS from Autumn 2018, and is currently preparing for this.
22. The written statement also proposed there would be a formal consultation on UKSPF later in the year. In preparation for this, over the summer cross government consultation events took place, intended to give partners the opportunity to discuss the design of the UKSPF and shape the consultation.

## Preparations for UKSPF

23. Within Durham, the Council has been working with its partners to develop its thinking on what an 'ask' for Durham would be in relation to the proposed UK Shared Prosperity Fund. In January 2018 a Shared Prosperity Working Group was formed, under the County Durham Economic Partnership and has prepared a draft position paper for Durham. The key principles emerging from this are that County Durham should not receive less funding than under the current ESIF programme, and receives a status that is equivalent to an EU Transition region and a ring-fenced budget. That the new fund is allocated on need and is more flexible than current arrangements, tailored to local priorities and delivered with less bureaucracy.
24. A North East Brexit Group has been established, under the LEP and brings together key networks representing business, education, trade unions, local authorities and voluntary organisations. Its purpose is to monitor economic evidence and the views, experiences and response of business, education and other organisations in the NELEP area as the UK moves through the Brexit process. The Brexit Group commissioned a future funding commission to identify the level and types of funding that has come into the North East over the last 20 years, especially from European Funding, to identify the activities that have supported, and the benefits realised from it, with a view to this informing the expectations for future funding. The Group has also produced a BREXIT Sector Study report, which seeks to understand the impact, challenges and opportunities that leaving the European Union will have on the North East's economy.
25. An All Party Parliamentary Group (APPG) on post-Brexit Funding has been established by a group of Westminster MPs, with secretariat support provided by the Industrial Alliance. The aim of the group is to help shape plans for the UK funding that is planned to replace EU funding that will not exist following Brexit. The APPG launched an inquiry in the summer, seeking views from stakeholders. Local partners within the North East responded, including the County Council, other local authorities and the NE Brexit Group. A copy of the Brexit Group's APPG submission is attached at Appendix 3.

## **Recommendations**

26. Economy and Enterprise Overview and Scrutiny are recommended to:
  - (i) Note the content of the report.
  - (ii) Receive further reports as the programme continues.

## **Background papers**

- Report to the Corporate Management Team – European Funding Update, 17 October 2018
- Economy and Enterprise Overview and Scrutiny Committee, EU Funding Update, 26 September 2017
- Economy and Enterprise Overview and Scrutiny Committee, EU Funding Update, 3 November 2016
- Economy and Enterprise Overview and Scrutiny Committee, EU Funding Update, 10 March 2016

- Economy and Enterprise Overview and Scrutiny Committee, EU Funding Update, 20 February 2015
- Report of Economy and Enterprise OSC – Update on EU Funding programme 30 October 2014.
- Report of the Corporate Management Team – EU Funding programme 1 October, 2014
- Youth Employment Initiative – Cabinet Report, 10<sup>th</sup> June 2015

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## **Appendix 1: Implications**

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### **Finance –**

Financial implications are considered for individual ESIF applications.

### **Staffing – None**

### **Risk –**

The revision and implementation of the EU Governance process will mitigate against risks associated with applying for European funding

### **Equality and Diversity – None**

### **Accommodation – None**

### **Crime and Disorder – None**

### **Human Rights – None**

### **Consultation – None**

### **Procurement –**

Discussion with Corporate Procurement has resulted in the inclusion of the Procurement Gateway within the EU Governance process. Procurement is considered for each individual ESIF application.

### **Disability Issues – None**

### **Legal Implications –**

Legal advice is sought from Legal and Democratic Services where necessary, for example, for any State Aid implications for individual applications

## Appendix 2 – All approved projects delivering in Durham.

### ERDF

PA1 – Innovation	ERDF Approved		
	More Developed	Transition	Total
The Innovation Pathway - RTC North Limited	£818,551	£215,080	£1,033,631
Innovate2Succeed - RTC North Limited	£406,606	£93,394	£500,000
North East Innovation Supernetwork - North East Business & Innovation Centre Limited	£446,433	£75,006	£521,439
Emerging Electronics Manufacturing Centre - Centre for Process Innovation (CPI) Limited	£255,284	£2,340,516	£2,595,800
North East SME Innovation Programme - North East Business & Innovation Centre Limited	£622,799	£197,639	£820,438
Northern Accelerator - Newcastle University	£282,461	£181,244	£463,705
Creative Fuse - Newcastle University	£746,869	£91,165	£838,034
Northern Centre for Emerging Technologies - Gateshead Council	£3,240,880	£0	£3,240,880
CIF ESM Outreach - Centre for Process Innovation (CPI) Limited	£402,763	£897,588	£1,300,351
Development of a North East Water Hub - Durham University	£271,519	£116,364	£387,883
Innovation Durham - Teesside University	£0	£690,511	£690,511
Collaborative Outreach in Applied Surface Engineering Technologies (COAST) - Centre for Process Innovation (CPI) Limited	£0	£2,709,735	£2,709,735
SME SPOTLIGHT - Photonics and Emerging Technologies for Healthcare SME Support Programme - Centre for Process Innovation (CPI) Limited	£0	£848,784	£848,784
Pathways to Innovation - RTC North Limited	£590,625	£196,875	£787,500
Arrow - Newcastle University	£1,356,949	£339,237	£1,696,186
Intensive Industrial Innovation Programme North East (IIIP-NE) - Durham University	£846,827	£626,880	£1,473,707
GX - NewcastleGateshead Initiative	£573,121	£63,680	£636,801
<b>Total</b>	<b>£10,861,687</b>	<b>£9,683,698</b>	<b>£20,545,385</b>

PA3 – SME Competitiveness	ERDF Approved		
	More Developed	Transition	Total
North East Business Support Fund 3 (NEBSF3) - Northumberland Business Service Limited (NBSL)	£2,272,640	£1,609,508	£3,882,148
Designing Better Business - RTC North Limited	£1,184,378	£290,960	£1,475,338
Enterprise Support in the North East - North East Enterprise Agency Limited (NEEAL)	£546,474	£338,500	£884,974
Advancing the Competitiveness of NE Automotive SMEs3 - NE Automotive Alliance	£569,698	£132,359	£702,057
SME Growth via Facilitated Market Access and Energy Management – NEPIC	£384,456	£95,047	£479,503
Digital Futures - Generator North East Limited	£765,000	£102,000	£867,000
Sunderland Software City (Phase 3) – Sunderland City Council	£1,081,554	£120,173	£1,201,727
Internships and Enterprise - University of Sunderland	£1,635,300	£261,825	£1,897,125
Better off in Business - Prince's Trust	£251,226	£18,910	£270,136
Creative Industries SME Business Support & Development - Northern Film & Media Limited	£384,532	£22,547	£407,079
Expanding North East Presence in International Markets - North East Worldwide Limited	£1,760,206	£587,498	£2,347,704
Durham Business Opportunities Programme (DBOP) - Durham County Council	£0	£624,056	£624,056
North East Business Support Fund 4 - County Durham (NEBSF4-CD) - Northumberland Business Service Limited (NBSL)	£0	£2,266,881	£2,266,881
Durham Internships and Collaborative Enterprise (DICE) Project - Durham University	£0	£613,105	£613,105
Community Enterprise Durham - Durham County Council	£0	£525,000	£525,000
Durham SME Digital Engagement Programme - Durham County Council	£0	£2,400,000	£2,400,000
Scale-Up North East - RTC North Limited	£1,875,000	£625,000	£2,500,000
<b>Total</b>	<b>£12,710,464</b>	<b>£10,633,369</b>	<b>£23,343,833</b>

<b>PA4 – Low Carbon</b>	<b>ERDF Approved</b>		
	<b>More Developed</b>	<b>Transition</b>	<b>Total</b>
Business Energy Efficiency Project (BEEP) - Durham County Council	£0	£533,887	£533,887
Grid Emulation System - GES - Offshore Renewable Energy Catapult	£2,822,350	£32,845	£2,855,195
Going Ultra Low North East - North East Combined Authority	£1,463,427	£60,975	£1,524,402
SWli (Solid Wall Insulation innovation) - Durham County Council	£0	£1,506,423	£1,506,423
<b>Total</b>	<b>£4,285,777</b>	<b>£2,134,130</b>	<b>£6,419,907</b>
<b>ERDF Approved</b>			
<b>PA8 - CLLD</b>	<b>More Developed</b>	<b>Transition</b>	<b>Total</b>
North Durham CLLD (Preparatory Work) – Durham County Council	£0	£7,150	£7,150
South Durham CLLD (Preparatory Work) - Durham County Council	£0	£7,150	£7,150
North Durham CLLD Implementation – Durham County Council	£0	£744,202	£744,202
South Durham CLLD Implementation – Durham County Council	£0	£986,501	£986,501
<b>Total</b>	<b>£0</b>	<b>£1,745,003</b>	<b>£1,745,003</b>
<b>Total ERDF Approved</b>			
	<b>£27,857,928</b>	<b>£24,196,200</b>	<b>£52,054,128</b>

## ESF

<b>Priority Axis 1 – Inclusive Labour Markets</b>	<b>ESF Approved in County Durham</b>
<b>1.1 – Access to employment for job seekers and inactive people</b>	
ESFA Opt-in	£2,333,333
DWP Opt-in	£1,608,000
North East Mental Health Trailblazer – Northumberland County Council	£325,263
<b>Total</b>	<b>£4,266,596</b>
<b>1.3 – Youth Employment Initiative</b>	
DurhamWorks – Durham County Council	£21,780,000
<b>Total</b>	<b>£21,780,000</b>
<b>1.4 - Active Inclusion</b>	
ESFA Opt-in	£756,000
Big Lottery Fund Opt-in	£1,500,000
<b>Total</b>	<b>£2,256,000</b>
<b>Priority Axis 2 - Skills for Growth</b>	
<b>2.1 – Enhancing Equal Access to Lifelong Learning</b>	
ESFA Opt-in	£8,333,333
<b>Total</b>	<b>£8,333,333</b>
EAFAs Opt-in	£1,869,167
<b>Total</b>	<b>£1,869,167</b>
<b>ESF Total</b>	<b>£38,505,096</b>

# APPG on Post-Brexit Funding for Nations, Regions and Local Areas

## North East Brexit Group Response

September 2018



North East England  
Chamber of Commerce



The  
manufacturers'  
organisation



Changing the world  
of work for good



North East  
Local Enterprise Partnership



north east combined authority



Experts in Business



University of  
Sunderland



VONNE  
voluntary organisations' network north east

## Introduction

The North East Brexit group brings together key networks representing businesses, education, trade unions, local authorities and voluntary organisations. Its purpose is to monitor economic evidence and the views, experiences and response of business, education and other organisations in the North East Local Partnership area as the UK moves through the Brexit process. In this work our shared aims are to:

- understand potential opportunities and impact areas in the context of the delivery of the North East Strategic Plan
- identify and address relevant support needs of businesses and employees, and interventions to support the regional economy
- ensure that national policy reflects an understanding of the economic structure, ambitions and conditions of the North East.

We welcome the opportunity to submit a joint response to the APPG on Post Brexit Funding Call for Evidence. This paper reflects an agreed position from the North East organisations or the North East teams from national bodies<sup>1</sup>. Individual signatories to this paper may also submit evidence through their own sectoral networks or as membership organisations.

This response has been informed by both the policies within the NE Strategic Economic Plan (SEP) and our delivery experience. The SEP is the regionally agreed economic plan, which provides the current policy framework for European Structural Investment Funds, Local Growth Funding and other investments, and leverages public and private funds. The SEP draws from a comprehensive evidence base about:

- The industrial strengths and opportunities, innovation and wider business growth opportunities within the region
- Infrastructure needs and priorities
- The position with reference to human capital, in particular the size, scope and trends within our population and labour force and the current and future skills position required to fulfil our economic aims.

## Overall budget

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

The budget for the UK SPF should be set in context of the total quantum of funding for regional development. As noted by the APPG, the EU “is currently the biggest single financial contributor to regional and local economic development across the UK”. Nevertheless, we question the premise that a domestic UK SPF ‘does not require new money,’ irrespective of the funding that will revert to the UK following EU exit. We would welcome the opportunity to explore expanding funding for regional and local economic development following the UK’s departure from the EU. Moreover, the North East LEP has currently been awarded a £270m Growth Deal and consideration needs to be given if other domestic funding such as Local Growth Fund, Regional Growth and skills funding is rolled into the new UK SPF.

The structural causes of unequal growth and prosperity across the UK are significant, while the level of public investment to address it – even with ESIF – has been inadequate. Expenditure on regional programmes, including matched funding, peaked at levels of just under 1% GDP, but has fallen latterly to a typical level of 0.2% GDP<sup>2</sup>. Invariably, these funding constraints have limited scope to dramatically reduce spatial and socio-economic disparities. Indeed, recently we are witnessing a period of divergence, rather than convergence, in productivity growth between more and less prosperous areas across the country.

Britain has one of the highest levels of regional inequality of any major European nation. GDP per head in London is £46,000, almost 2.5 times higher than the North East figure of £19,000<sup>3</sup>. The Chief Economist at the Bank of England has said that “regional inequality is right up there as among the

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<sup>1</sup> The Brexit Group is an informal group including participants from the following; CBI North East, North East Chamber of Commerce, North East Federation of Small Businesses, Entrepreneurs Forum, North East EEF, Northern TUC, Association of Colleges, North East Local Enterprise Partnership, North East Combined Authority.

<sup>2</sup> Northumbria University (2018) Evidence Report on the role of EU funding in the North East. Not available in the public domain

<sup>3</sup> Ahmed, K, Britain’s inequality map – stark and growing, BBC, 2 December 2016 <http://www.bbc.co.uk/news/business-38186047> Accessed: 03.01.18

most important issues that we face today as a country.” We consider this a missed opportunity and that UK SPF is an opportunity to ‘rebalance the economy’ as set in the Industrial Strategy<sup>4</sup>.

Current national expenditure on regional and local economic development reinforces these disparities. Rather than stimulate growth by targeting investment where it is needed, national spending tends to be concentrated in areas that already have a strong economic advantage. IPPR estimate that the North has missed out on £63 billion investment due to chronic underfunding of its infrastructure needs. Over the last decade, an annual average of £708 was spent on transport per person in the capital, while £289 was spent for each person in the north of England. The analysis demonstrates how levels of public investment support growth in prosperous areas; this opportunity should be afforded to all regions of the UK rather than concentrated disproportionately in London and the South East<sup>5</sup>.

In addition, funding for economic development has been disproportionately cut in recent years as Government reduced resources in several key areas vital to generating growth, exemplified by the removal of financial support for business growth activity and diminished capacity to proactively seek inward investment. This has not been replaced at regional or local level. Between 2010/11 and 2014/15 local resources for economic development were reduced by almost 49% nationally, whilst in the North East this amounted to 62%<sup>6</sup>.

If the UK SPF is to enhance the prosperity of all places and communities in the UK, it needs to be substantial and complement a funding package that acknowledges regional development as a spending priority, irrespective of the multitudinous calls on money set to be repatriated from the EU.

The amount of ESIF funding passed to regions amounts to £1 billion per year for the whole of the UK. The North East has long been a beneficiary of these funds and the current ESIF programme brings over €560 million to the region for investment in R&D and innovation, infrastructure, economic assets, business support, employment and skills over seven years. Throughout the 2014-20 programme, these resources will support over 13,500 businesses and 160,000 people, considerably enhancing the scale of public intervention and pioneering new approaches to existing Government programmes. A replacement for EU funds is therefore of critical importance to us meeting our aspirations for our region, its communities and businesses. The UK SPF will be essential if the North East is to achieve its ambitious economic aims to create 100,000 more and better jobs by 2024, as set out in the SEP.

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

Multi-annual financial allocations (over at least a 7-year period) aid strategic decision making, breed confidence and stability, encourage private sector investment, promote job creation and opportunities for growth. Long-term, sustained funding supports sub-national economic development by explicitly tackling inter-regional and intra-regional disparities that take time to diminish. Regional development requires a long-term perspective; many projects are major infrastructure schemes and revenue programmes that need to be built or run over several years. Even under the current system, most interventions are delivered over at least a three-year time frame. It is therefore important that UKSPF is a strategic devolved multi-annual programme that enables projects of strategic and regional significance to be funded. Annual funding allocations would limit strategic planning and longer-term investments that enable us to determine their effectiveness, allowing time for virement so that successful programmes can be scaled up, opportunities identified, and gaps addressed.

Synchronising funding cycles across government is challenging and priorities are subject to change given national and sub-national spending reviews. Yet, HMT has established precedents for allocating guaranteed funding beyond fixed-term Parliaments, notably on defence and transport. The consistent availability of Structural Funds over a longer-time horizon has partially helped to counteract cyclical and fiscal fluctuations in central government spending. Regional and local actors have a great deal of experience aligning different national, regional and local funds to develop and deliver the SEP, as the current agreed regional framework for economic development. The LEP Review demonstrated that LEPs are well positioned to administer and manage the Fund, building on the successful management of Local Growth Funding.

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<sup>4</sup> A. Haldane, ‘One car, two car, red car, blue car’, Speech given at Materials Processing Institute Redcar, 2 December 2016, Bank of England, London 2016

<sup>5</sup> <https://www.theguardian.com/politics/2018/aug/01/transport-spending-gap-london-north-of-england-ippir> Accessed: 23.08.18

<sup>6</sup> Association of North East Councils response to the Fairer Funding Review for Local Government

While we fully appreciate the imperative to design fit for purpose successor arrangements, we are significantly concerned about the implications of not having a fund designed and fully in place by March 2019 that can be utilised in 2020/21. The economic stimulus provided by continuous EU, regional and local investments could be lost and the impact of this cliff edge effect on the economy and labour market should not be underestimated.

### **Would it be appropriate to roll in other budget lines (e.g. the Local Growth Fund in England) into the UK Shared Prosperity Fund?**

The value of the individual funding streams integrated in a Single Pot must be transparent and reflected in the overall quantum of the UK SPF. Furthermore, the aim and function of the fund should be clearly specified. There are benefits to establishing a fund that brings together resources for economic growth; creating a flexible fund which avoids a restrictive siloed approach. In the North East, therefore UK SPF would fund activities across innovation, skills, business support, economic and social infrastructure, transport and employment support to meet the distinctive needs, assets and opportunities to the region.

Restrictions on eligibility is a recurrent frustration with Structural Funds leading to lots of different funding streams and 'initiative-itis'. It makes sense to adopt holistic approaches - widening eligibility criteria, eradicating artificial constraints such as age cohorts and project types - and enabling places to make decisions across different types of intervention.

### **Allocation across the country**

#### **How should the UK Shared Prosperity Fund be divided up between the four nations of the UK?**

UK SPF must be targeted to reflect local economic conditions, recognising the latent potential and opportunities for growth in many areas and not allocated on a competitive basis or according to some other mechanism e.g. the Barnett Formula. Individual areas should then be free to allocate funding from within their allocations to projects at a panregional or multi-country basis.

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

Given the limited time available to implement a UK SPF, it would be helpful if Government were to guarantee funding continuity and retain existing spending shares across both countries and regions. This would minimise disruption and maintain investment in local economies during a transitional period. In parallel, an analysis should be undertaken to ensure that future UK SPF allocations reflect local economic conditions, opportunities for economic growth and rebalance the economy.

#### **Should the allocations within the devolved nations be an entirely devolved matter?**

Allocations to devolved nations should be a matter for the UK Government, but how money is distributed within devolved nations is not an issue for the North East. But our view is that policy and project selection decisions relating to funding allocated to NE England should be fully devolved.

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

An allocation of needs-based funding like the NUTs system adopted by the EU has worked effectively. Allocations must be calculated using a fair and transparent formula with consideration given to deprivation, unemployment levels, productivity differentials, sectoral imbalances and the challenges likely to arise from Brexit.

#### **Is there any role for competitive bidding between areas for funding?**

We do not believe that the UK SPF should include significant levels of competitive bidding. In the North East, we have been a longstanding beneficiary of ESIF funding alongside being successful in competitions such as the Local Growth Fund, which has delivered major strategic projects across the region. Although the NE has successfully delivered EU funding, and delivered amongst the strongest outcomes in the country, we have a concern that moving to an alternative model of competitive bidding would exacerbate existing regional disparities, resulting in perverse outcomes from competitive bidding processes – which may not allocate resources where they can have biggest overall impact on rebalancing objectives. .

We are particularly concerned by recent guidance from Government to use Land Value Uplift to make investment decisions and allocate funding. Given the varying nature of Land Values across the

country, this approach disadvantages those areas with lower land values, or with larger ratio between different land uses, which would affect parts of the North East and North compared to Greater South East. If competing nationally for funds, the Land Value Uplift metric creates an unfair playing field – contradicting Government key policies around re-balancing the economy. The industrial strategy demonstrates Government’s commitment to ensuring that “every part of our country realises its full potential” through the introduction of new policies to improve skills, connectivity and infrastructure, innovation for example. There is growing evidence that the UK is now producing diseconomies in certain areas, manifested by acute housing shortages, congestion and air pollution in the capital contrasted with slower rates of growth and a higher prevalence of deprivation elsewhere. More affluent areas may be building on a stronger existing economic base, and interventions may appear to generate stronger VFM, although it is less clear if this is the case if diseconomies and deadweight are properly taken into account.

It is much better to award long-term resource settlements and encourage areas to deliver the best outcomes from their respective allocations. One exception is that if there is a drive to stimulate certain types of economic development based on competitive strengths in innovation or smart specialisation, it may be appropriate to introduce a bidding process. However, this should be distinct from the needs-based exercise used to allocate most of the fund. The UK SPF should also be sufficiently flexible to join up these areas of activity across sectors and within places.

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

Yes. The North East SEP as a regionally agreed economic plan should provide the framework for national investment in the regions and devolve responsibility to sub-national structures, such as LEPs, which have already developed significant delivery expertise and an ability to deliver much more quickly than national bodies. Furthermore, the LEP Review positioned LEP areas to be the geography to which UK SPF is allocated and therefore, the framework for managing and delivering domestic funds as LGF could be replicated for UK SPF. Devolution implies an element of regional differentiation to ensure investment can be tailored to the socio-economic geography, diverse needs and areas of opportunities for business and communities throughout the UK. We have considerable experience of establishing systems and procedures to manage and account for funds through the framework outlined in the SEP. Our approach is informed by a multi-sectoral partnership that has guided us through past EU funding programmes and continues to evolve to track changes in national government policy.

**Activities to be supported**

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

The UK SPF should deliver the principles set out in the industrial strategy to reduce inequalities between communities and places by promoting sustainable and inclusive growth. However, we consider there to be weaknesses in solely prioritising productivity measures. Tackling spatial disparities in economic performance, and targeting investment on economic opportunities and potential which promotes economic rebalancing should be retained as an explicit objective in UK policy making.

Investing in services that support disadvantaged and hard-to-reach communities neglected by mainstream state provision is also vitally important. In doing so, it will help tackle the UK’s current skills gaps and productivity challenges and deliver a thriving labour market in line with the government’s Industrial Strategy. To deliver these objectives, a new initiative should be led through partnerships that develop community-driven solutions which build social cohesion and opportunities for people on the margins of society. This vision should be part of a long-term investment strategy, which can deliver significant long-term savings by helping to tackle some of the UK’s most entrenched inequalities.

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

Partners should determine the priorities they wish to fund in line with their SEP and Local Industrial Strategy that identifies regional and local needs and opportunities for economic growth.

A key opportunity with a domestic fund is the freedom to finance activities ineligible for EU funding, such as certain business investments and infrastructure improvements. There may be a need for

different investment priorities resulting from changes in the UK's international relationships i.e. FDI and business support.

The UK SPF should integrate investment in infrastructure, business support, employment and skills, through a mix of capital and revenue funded interventions and empower partners to join up these activities within a place. Without this focus, regional disparities will continue to widen and further alienate communities disillusioned with the status quo.

Government should review EU plans for the next round of structural funding to explore objectives or activities that are also relevant to the UK. There is value in sharing experience and learning across the EU, and therefore it is important that Government facilitates strong learning and collaboration with EU regions and networks post Brexit.

Current limitations on size of project, bureaucratic restrictions and perceptions of risk have squeezed out some of the non-profit sector and smaller, community projects. Places must have the flexibility to fund large scale, multi-year projects as well as smaller scale initiatives, which often support the most vulnerable in society and those furthest from the labour market. Both types of project are important and the UKSPF should be responsive to this.

### **Should there be guarantees that specific activities supported at present by EU funding (e.g. ESF support for training) will continue to receive funding?**

It is important to have an evidence based approach to regional policy, ensuring that regions focus on the right interventions based on clarity about what works for businesses and the community and are able to deliver to high level of quality. Regions should be able to select their priorities to address their needs and ambitions based on what is set out in the SEP.

Regardless, a stable funding environment is vital to preserve the infrastructure, networks and capacity needed to continue delivering regeneration. A significant proportion of European funding has financed support for businesses and people alongside physical regeneration and this mix should continue.

Bringing about inclusive growth and raising productivity will require increased investment in skills development as the rapid pace of technological change and globalisation intensifies competition. The new funds must:

- ensure places can support people who are displaced or excluded from the labour market into employment
- facilitate labour market retention and progression by upskilling
- provide the skills base to take advantage of emerging economic opportunities from investment in innovation, infrastructure and development

Achieving an appropriate balance across all these funding priorities is critical, recognising that labour market conditions vary across the country. Delivering improved labour market outcomes in relation to employment rates, skills levels and wages relies on local knowledge of key sectors that are sustainable, offer good quality employment, and the support people need to access jobs in these industries. Building sustainable infrastructure is an emerging requirement for places to remain competitive while decarbonising their economy. Opportunities to advance this agenda remain largely untapped due to complexities and operational constraints of existing programmes.

There should be a smooth transition to the UK SPF to ensure that activities currently funded through EU or domestic funds continue to support strategic economic plans.

## **Management**

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

The UK SPF should facilitate local and regional priority setting within an overarching strategic framework, enabling areas to realise national objectives in a way that is sensitive to the opportunities and challenges of shaping growth and prosperity in different places. Successive programmes have drawn significantly on local understanding of the priorities, assets and needs of communities within a common strategic economic framework to inform investment decisions, for example the North East LGF funds major projects for the region. Therefore local partners with a sound grasp of economic conditions, such as LEPs should be trusted to use the funds to deliver these ambitions with minimal guidance from Government.

Partnerships between the public, private and social partners such as trade unions and the voluntary sector must be retained in future governance arrangements and stakeholders should be involved in all

aspects of the design, management and evaluation of programmes. Local stakeholder knowledge has allowed sound decision making but also steered changes and adjusted programmes to take account of emerging local challenges as they arise. Collaboration has beneficial impacts beyond the initial funding period and building institutional capacity should be recognised as an outcome, alongside quantifiable outputs and results.

Joint working encourages sectors to coalesce around a shared vision for an area, which in turn levers the necessary buy-in to agree priorities, align resources and scale up activity focused on inclusive growth and improved productivity. In addition to shaping the programme at a strategic level, an inclusive and participative decision-making process ensures partners focus institutional capacity on working towards common objectives and take collective ownership for delivering better outcomes to maximise the impact of intervention.

A long-term fully devolved funding programme, aligned to the Strategic Economic Plan and emerging local industrial strategies, will allow effective strategic management and long-term investment decisions to be made. The LEP Review positioned LEPs as the mechanism for the allocation, administration and management of the Fund, which will enable significant capital projects and revenue programmes with medium-term outcomes to be developed. Reserves or underspends should be managed in a way that incentivises expansion of effective programmes and the development of tools that address specific needs e.g. JEREMIE. The ability to combine and manage funds at local programme level is essential to deliver more cohesive, integrated and impactful interventions. Despite attempts to combine EU funding streams, the different accounting systems and sets of rules constrained the development of joint programmes. The UK SPF should include people, business and place driven funding and avoid a silo approach controlled by different government departments.

Government should set broad guidelines; regardless of Brexit, the UK will still be bound by a form of State Aid rules (whether convergent with EU or WTO rules) and this is a matter for the centre to resolve. The criteria for the UK SPF will therefore need to comply with this legal framework.

### **How should the impact and desired outcomes of the Fund be defined and measured?**

Inevitably, policy makers will want to understand the impact of Shared Prosperity Fund on metrics like unemployment, jobs, GVA and wages. But, while these indicators are tangible, they do not capture full added value in relation to partnership working, resource pooling, sustainable growth, sectoral development, job quality or improved living standards. It is also important to take into account the ability to lever other investment, whilst ; iconic culture-led regeneration in the NE has enhanced the region's image, quality of life, tourism and talent retention and support for a network of innovation assets critical to the development of regional catapults.

The rigidity of a national assessment framework highlights a missed opportunity to capture the benefits and durable legacy of investing resources in overcoming discrete regional and local challenges. In future, there should be wider thematic objectives, priorities for intervention and targets determined sub-nationally at the appropriate geography linked to the industrial strategy. Instead of apportioning outputs and results based on funding allocations, places should define which indicators are most relevant according to the challenges and opportunities to be addressed by each area. Regional and local actors should also agree the balance between productivity and inclusivity outcomes to deliver a sustainable return on investment.

### **How can the promise that the Fund will be “cheap to administer, low in bureaucracy” best be delivered?**

Simplification should be a key objective in designing the UK SPF. Aligning programmes nationally, regionally and locally by prescribing the amount of resources to be contributed by other public or private funders through a match funding regime is no longer appropriate. The intervention rate (requirement for partners to provide a specified percentage of match funding) has proven difficult in an era of declining public funding and reduced levels of private finance. Its removal would enable places to capture leverage instead by devising a holistic funding package derived from various sources and denominations. The fund should have the flexibility to lever in private funds and public funds, or offer a wholly financed approach, together with the ability to fund revenue and capital interventions, as determined collaboratively by regional and local partners. Improved flexibility would accelerate coordinated physical regeneration, business growth and labour market interventions to maximise opportunities to bring about sustainable, inclusive growth. Regionally, we can align and

integrate sectoral and place-based investment in science, research and innovation, skills and infrastructure, underpinned by effective partnership working to target resources effectively.

Retaining capacity to identify, develop and deliver projects is crucial, particularly by those who best understand the needs and priorities of an area and therefore how to target funding efficiently and effectively. The programme/fund should be sufficiently well resourced and embedded throughout the project cycle from development to closure. Large and complex programmes require oversight to reassure funders that place making institutions have the capacity to operate on the principle of subsidiarity; making effective decisions at the most appropriate spatial tier to deliver national objectives, better meet the needs and build opportunities for regions and local communities. Managing the cost of delivery must be balanced against designing a programme that meets national priorities as well as fulfilling regional and local needs. LEPs are therefore well positioned to manage the Fund effectively, cheaper than other mechanisms as LEPs can replicate the management and delivery of LGF using the assurance framework and LEP governance structures.

During the transitional period, there should be minimal system changes pending consideration of the longer-term reforms that will be required to administer the UK SPF.

### **Where should local authorities fit into the management of the new Fund?**

Traditionally local government has performed a strong role in local economies, overcoming market failures by investing in commercial property, housing, transport and skills development alongside managing the regeneration of cities and localities. Under the current ESIF programme, local authorities play an invaluable role guiding local expenditure and overseeing programmes, which must be maintained. The LEP Review positions LEPs as an appropriate mechanism for managing funding, and therefore local authority engagement will continue through LEP board membership and executive and office groups.

It is important that the UK SPF is open to all sectors of the economy. UK SPF funding therefore should improve upon, rather than replace, those reductions in spending on public infrastructure projects because of austerity, which has acutely and disproportionately affected local government.

### **How should programmes and projects be monitored and evaluated?**

Monitoring and evaluation should be devolved to the sub-regions. The replacement of regional governance arrangements (Programme Executive Group and Local Management Committee) with a national management committee has resulted in disjointed programme, monitoring and evaluation activity, which is onerous to resource and has led to a slow and cumbersome system. Using national evaluation criteria to assess programmes designed to meet regional needs makes it difficult to capture the beneficial impact of this funding on sub-national economic development. Moreover, a centralised, national approach has made it difficult to ensure relevant considerations inform future policy and programme design. Devolved and local authorities are subject to strict scrutiny and auditing rules and have a strong track record managing funding programmes. Proportionate reporting and record keeping requirements, relative to project size, would simplify the process, generate savings and produce a leaner, more effective system.

Funding should be made available to ensure that the monitoring and evaluation at project level as well as programme level is meaningful. Enough resources should be put in place to undertake evaluation throughout the programme, including ex ante, ongoing and ex post evaluation.

Greater emphasis should be given to learning what works, what may be done differently and how challenges can be overcome, coupled with assessing value for money, measuring results and appraising outcomes. Most importantly, evaluation must be better used to shape future projects and programmes, with learning shared across the regions.