1 Executive Summary

1.1 This paper provides an overview of work being undertaken within government and the GLA to develop the UK Shared Prosperity Fund (UKSPF), which will replace European Structural Investment Funds (ESIF) in London when current programmes end.

2 Recommendation

2.1 That the Taskforce notes work being undertaken to prepare for the UK Shared Prosperity Fund.

3 Introduction and Background

3.1 London has an ESIF allocation of c.£581 million for the 2014-2020 funding round. There are two component funds: the European Social Fund (ESF) which has an allocation of c.£422 million; and the European Regional Development Fund (ERDF) with c.£159 million. The ESIF funding leverages an equal amount of domestic match funding, meaning the total value of the ESIF programme in London is over £1 billion. This funding can, in theory, be spent up until 2023.

3.2 ESF fills gaps in mainstream employment and skills provision and looks to target those most disadvantaged in the labour market. ERDF provides support for small and medium-sized enterprises and supports the low-carbon economy.

3.3 Brexit will bring ESIF to an end in the UK. However, exactly when the UK leaves ESIF programmes is not yet certain. It is possible that the ESIF programme will end when the UK leaves the EU, possibly in March 2019. But it may continue for a little while longer, although not beyond 2023. The Government has confirmed that ESIF funding can be committed until the point of Brexit; and contracts extending beyond 2019 will be reimbursed by the UK
or EU, depending on Brexit negotiations. London intends to commit its remaining ESF and ERDF before Brexit.

3.4 There is little in the public domain about successor funding. However, the 2017 Conservative Manifesto promised that the Government would “use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations. The money that is spent will help deliver sustainable, inclusive growth based on our modern industrial strategy.” Development of the UK Shared Prosperity Fund (UKSPF) is being led by the Department for Communities and Local Government (DCLG).

4 Issues for consideration

4.1 The GLA welcomes the commitment for replacement funding once ESIF ends. ESIF is important to London and a failure to provide it would be detrimental. Indeed, the Mayor has written to Ministers about this.

4.2 The GLA has overseen innovative and compliant European programmes, despite their disproportionate audit and compliance regimes. Potential future funding without the complex bureaucracy of ESIF is also to be welcomed.

4.3 Nevertheless, the creation of the UKSPF raises two big risks for London:

   1. UKSPF will not be devolved

4.4 The first concern is that UKSPF will be centralised. Currently, management of ESIF funding in London is devolved by government to the GLA, which has been granted ‘Intermediate Body’ status. The LEAP’s London ESIF Committee has strategic oversight of how ESIF is spent in London; and the Mayor takes the final decision to commit funds.

4.5 We do not know how the UKSPF will be administered and what the governance arrangements will be. There is a risk that central Government will take back some, or all, control of local growth funding from London.

   2. London funds will be cut

4.6 A second concern is that London will not get a fair share of the funding once the total is divided between UK nations and English LEP areas (or any other geographical split); either because the quantum is reduced, or the allocation mechanism is changed.

Working with government

4.7 The GLA has been working with Government to ensure the UKSPF is appropriate for London. In June, teams across City Hall met government officials as part of DCLG’s initial consultation about the fund.

4.8 We expect DCLG to outline their vision for the UKSPF and initiate a formal consultation next year. In the meantime, a position paper will be submitted to government laying out London’s requirements for successor funding. With analytical support from GLA Intelligence it will provide an evidence base for each requirement (see section below). The GLA is preparing the paper, working with London Councils.
London’s requirements

4.9 The GLA has suggested four broad requirements for the UKSPF, and are in
discussion with London Councils' officials to agree a final set of proposals. The
GLA's draft propositions are that:

4.9.1 The UKSPF should be fully devolved to London. There are significant
benefits of devolving funding to local areas, and London has the
capacity, track record and experience to deliver programmes effectively.

4.9.2 Local allocations of the UKSPF should be based on a fair measure of
need, and this should not be regional Gross Value Added (GVA).
London has a high GVA, but also entrenched poverty. We believe a
fairer way of distributing funding should be found, potentially via the
Index of Multiple Deprivation.

4.9.3 London should receive at least as much money as it does currently for
ESIF. Any decrease in funding is likely to hit the most disadvantaged,
given these groups do not always engage with mainstream support;
austerity means there are fewer alternative sources of funding than
before.

4.9.4 The UKSPF should run on a much-simplified model compared to ESIF.
Whilst ESIF plays a crucial role in the London funding landscape, it is
bureaucratic and complicated. A new programme that ensures rigorous
management but without the restrictive audit and compliance regime of
ESIF will further encourage innovation and deliver better results for
Londoners.

5 Equality comments

5.1 ESF is an important tool which supports those most disadvantaged in London,
including those with protected characteristics. The current ESF programme
targets support for people with disabilities, people from BAME communities
and older people, for example. ERDF is responsive to the needs of
communities and under-represented groups; it is targeted towards under-
represented communities where relevant. Without a reasonable allocation of
successor funding, the GLA will be unable to continue providing this support at
the same scale. As such, it is important that all possible actions are taken to
ensure the UKSPF allows this type of support to continue at least at current
levels.

6 Risks arising / mitigation

6.1 As noted in section 4, the UKSPF presents risks to London, specifically
relating to the degree the fund will be devolved, and the quantum of money
that London will receive.

Risks / mitigation include:

6.2 The real possibility of a gap between ESIF finishing and UKSPF starting,
leaving a funding ‘cliff edge’ after which no support will be available to the
most disadvantaged Londoners. To mitigate this GLA is working hard to
commit as much ESIF as possible ahead of the UK's departure from the EU.
6.3 That the UKSPF will focus more on supporting the UK’s Industrial Strategy (through ERDF-type support) and less on delivering employment and skills programmes for disadvantaged Londoners (through ESF-type support). Most LEPs have split their ESIF funding evenly between ESF and ERDF, but in London three quarters of the ESIF allocation is ESF. To mitigate this risk, the submission to DCLG will provide a clear evidence base for the continued need for funding.

7 Financial Comments of the Executive Director Resources

7.1 If funding committed before March 2019 can continue to be spent after this date and potentially up to 2023, this flexibility should be utilised to ensure there is some spending continuity in the event there is a gap before any new funding begins.

8 Next steps

8.1 The timetable for the further development of the UKSPF is unclear. We expect a formal consultation from DCLG next year, but this is not confirmed. Work will continue with DCLG and other departments to put forward London’s case for a devolved local growth fund that can deliver local and regional priorities.

Appendices
None