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The UK Shared Prosperity Fund

Strengthening the union or undermining devolution?

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About this report

This paper looks at the UK government's plans to replace EU structural funds with a new UK Shared Prosperity Fund. It assesses how this fund will interact with the devolution arrangements in Scotland, Wales and Northern Ireland, how the devolved governments could and should be involved in its operation, and what role the new fund plays in the UK government's strategy to strengthen the union.

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Contents

Summary

The UK government plans to replace European Union 'structural funds' with a new UK Shared Prosperity Fund (UKSPF), due to launch in April 2022. This paper assesses those plans – specifically, how the new fund will operate in Scotland, Wales and Northern Ireland; what role those nations' devolved governments will play; and how this might affect the future of the union.

As a member of the EU, the UK received substantial transfers from the EU budget as structural funds. These form a central part of the EU commitment to supporting sustainable development and reducing economic disparities between and within member states, and are used to fund employment and skills programmes, research and innovation, and direct support for business and infrastructure. In the UK, spending is weighted towards relatively deprived regions such as Cornwall and the West of Wales.

The two main structural funds that have operated in the UK are the European Regional Development Fund (ERDF) and the European Social Fund (ESF).[*] In 2014–20, the EU's last seven-year budget cycle, the UK as a whole was allocated a total of €11 billion from these two funds. EU structural funds were topped up with 'match funding' – additional contributions to EU structural fund projects financed domestically – a large share of which was provided by the UK and devolved governments.

As a result of Brexit, all parts of the UK have lost access to future ERDF and ESF support. This has raised the question of what replacement programmes should be put in place of these sources of economic support.

This is a question of particular concern to the three devolved nations, since each has received a larger amount of funding per person than England. From the ERDF and ESF combined in the 2014–20 cycle, England was allocated €7.1bn, or €130 per person; Scotland €940 million, or €180 per person; Northern Ireland €510m, or €280 per person; and Wales €2.4bn, or €780 per person. Compared with England, allocations of EU structural funds per person were therefore a little over a third higher in Scotland, more than twice as high in Northern Ireland, and six times as high in Wales.

The Conservative Party's 2019 general election manifesto promised that the new UKSPF would "at a minimum" match the level of EU spending in each of the four nations of the UK.[1] Following Boris Johnson's victory, his government is now under pressure from the devolved nations to show how it will meet this promise.

* The ERDF and ESF are part of a broader set of EU funding programmes that the EU collectively terms European Structural and Investment Funds (ESIF). Other components of the ESIF include the European Agricultural Fund for Rural Development (EAFRD), the European Maritime and Fisheries Fund (EMFF), the Cohesion Fund (CF) and funding to support European Territorial Cooperation (ETC): https://ec.europa.eu/info/funding-tenders/funding-opportunities/funding-programmes/overview-funding-programmes/european-structural-and-investment-funds_en

However, the devolved governments have an interest not just in how much replacement funding will be provided, but in who will decide what this money is spent on.

EU structural funds were administered on a devolved basis. This meant the governments in Edinburgh, Cardiff and Belfast took the lead in setting the funding priorities for structural funds within their territories as part of a 'UK partnership agreement' jointly signed by the UK government and the EU. Each of the devolved governments then acted as the managing authorities for disbursing those funds. The UK government was responsible for delivering structural funds only within England, working within the overarching framework agreed with the EU.

Ministers at Westminster argue that there is an opportunity to design a post-Brexit system for supporting economic growth and regeneration that improves upon the EU framework. As such, the government intends the UKSPF to be:

- Less bureaucratic than EU structural funds, by cutting "overly prescriptive categories", reducing targets and focusing on outcomes over outputs

- Allocated more quickly than EU structural funds, which can take up to two years to reach local areas from the start of the funding period

- Better targeted to local places and people in need of funding, such as post-industrial towns, deprived rural and coastal communities, and the long-term unemployed

- Better aligned with other domestic policy priorities, such as net zero objectives and 'levelling up', by "enabling more holistic, joined-up investment"

- Better able to fund projects that span more than one of the UK nations, for instance to support economic development initiatives across the Anglo-Welsh border.[2]

In addition, the government regards the UKSPF as a central plank of its strategy to strengthen the union by showcasing the benefits of Whitehall-led investment in local and regional economies. To that end, ministers will operate the UKSPF through a single UK-wide framework, using new powers under the UK Internal Market Act 2020 to disburse money directly to local partners across the UK.

This means the devolved governments are expected to play a marginal role in allocation decisions within their own territories, even though the fund will spend money on matters that lie primarily within the responsibility of the devolved governments, such as transport, skills and economic development.

The UK government has stated that "the devolved administrations will have a place within the governance structures" of the UKSPF.[3] But it has not provided further detail – either publicly or to the devolved governments themselves – about what these structures will be or what role the devolved bodies will play in them.

This approach from the UK government carries risks that could both reduce the effectiveness of the UKSPF and undermine its own objectives. These include:

- Duplication of functions, with both UK and devolved governments funding similar initiatives in competition with one another
- Fragmented provision of services, if the UK government grants money to local projects that are not joined up with similar initiatives funded directly by the devolved governments
- Confused accountability, if UK and devolved ministers end up simultaneously funding similar services – such as skills, employment and business support initiatives
- Funding uncertainty for devolved governments and potential local recipients of the UKSPF, since there is still little clarity about how funding will be allocated or over how long a period
- Increased tensions between the UK and devolved governments – already high – which could undermine the intention to use the UKSPF to showcase the benefits of the union, especially if voters perceive that the fund is being used by ministers to undermine devolution.

There are particular concerns relating to Northern Ireland. The Northern Ireland executive has extensive experience of administering EU structural funds in a way that supports community relations. There is a risk that a UK-wide scheme run by the UK government would fail to tap into this expertise and would not secure vital cross-community support in Northern Ireland.

These risks are exacerbated by the limited extent to which the UK government has engaged with the devolved governments and other stakeholders during the development of its plans for the UKSPF. It is also yet to conduct a public consultation on the fund. As a result, more than four years after plans for the UKSPF were first announced, and with the fund due to start in April 2022, there are scant details on how it will operate or what role the devolved administrations will play in its governance.

Recommendations in brief

The UK government is expected to publish a UKSPF investment framework by autumn 2021, followed by further detail on financial allocations in a full spending review. To mitigate the risks we identify, it should:

- Set out **clear criteria for how spending under the UKSPF will be allocated**, based on a transparent methodology that assesses need at a local as well as a regional level

- **Reduce bureaucracy** for local recipients of funding and deliver funding to the front line more quickly than EU structural funds

- Improve **consultation with devolved administrations** as an immediate priority, with ministers authorising officials to share far more information than at present and to seek devolved input at all stages of development of the UKSPF investment framework

- Clarify how the UKSPF will **avoid duplicating spending** in devolved territories and ensure that new spending aligns with the devolved governments' own economic development, employment and transport strategies

- Design a governance structure for the UKSPF in which the **devolved administrations participate as partners** rather than mere consultees, with devolved officials and ministers involved in selecting and overseeing projects

- Consider a **'match funding' model** for at least some projects in the devolved nations, meaning they are funded jointly by the UK and devolved governments

- Provide reassurances to devolved administrations and local government regarding the **level of funding, the specific EU funds that the UKSPF is due to replace, and the timescale** over which funding will be guaranteed

- Clarify how the UKSPF will operate in the **specific context in Northern Ireland** and comply with the statutory duty to promote good community relations and equal opportunities.

Introduction

This paper examines the UK government's plans to replace EU structural funds with a new UK Shared Prosperity Fund (UKSPF). It assesses how this fund will interact with the devolution arrangements in Scotland, Wales and Northern Ireland, how the devolved governments could and should be involved in its operation, and what role the new fund plays in the UK government's strategy to strengthen the union.

The UK government is in the process of developing a framework for the UKSPF, which will replace some of the EU funding for economic development. The UK government has made clear that its plan is for the UKSPF to operate through a single UK-wide framework administered by the UK government, with a limited role for the devolved administrations in the governance of the scheme, using new powers conferred upon ministers at Westminster by the UK Internal Market Act.

This approach will empower UK ministers to direct investment in line with economic and political priorities set by the UK government for the whole country. It will also enable the government at Westminster to use the fund to make the case for the benefits to Scotland, Wales and Northern Ireland of remaining part of the union. But from the perspective of the devolved governments, the plans represent an unwelcome encroachment into their sphere of autonomy, as politicians at Westminster will be able to set policy in devolved domains such as education, transport and economic development.

The paper comprises five sections. First, we discuss how EU structural funds operated, with a particular focus on their role within the devolved nations. Second, we look at the UK government's plans to replace EU structural funds with the UKSPF and discuss the issues that remain to be clarified about the fund. Third, we consider the UK government case for its approach to setting up the UKSPF as a single UK-wide mechanism under its direct control. Fourth, we identify certain risks that arise from the UK government strategy. And fifth, we set out ways in which those risks could be mitigated.

How have EU structural funds worked across the UK?

European Union structural funds were worth a total of €11bn to the UK over the 2014–20 EU budget cycle. The devolved nations – and Wales in particular – were disproportionately reliant on this spending to support their economies. The devolved governments had substantial control over how this money was spent.

EU structural funds have supported economic development across the UK

As a member state of the EU, the UK was eligible for financial support from the European Regional Development Fund (ERDF) and the European Social Fund (ESF), jointly referred to by the UK government as EU structural funds. These funds are part of the EU's cohesion policy, a set of EU-wide initiatives to support sustainable economic development and reduce regional economic disparities both between and within member states.

The two funds have slightly different profiles:

- The ERDF supports investment in innovation and research, information technology, small and medium-sized enterprises, and the promotion of a low-carbon economy. Spending under the ERDF in the UK was split roughly equally between capital (investment) and resource (programme) expenditure.[*]

- The ESF supports employment-related projects and vocational skills training. It includes the Youth Employment Initiative (YEI), which supports young people who are not in education, employment or training, and is available to regions with over 25% youth unemployment. ESF spending was categorised almost entirely as resource spending.

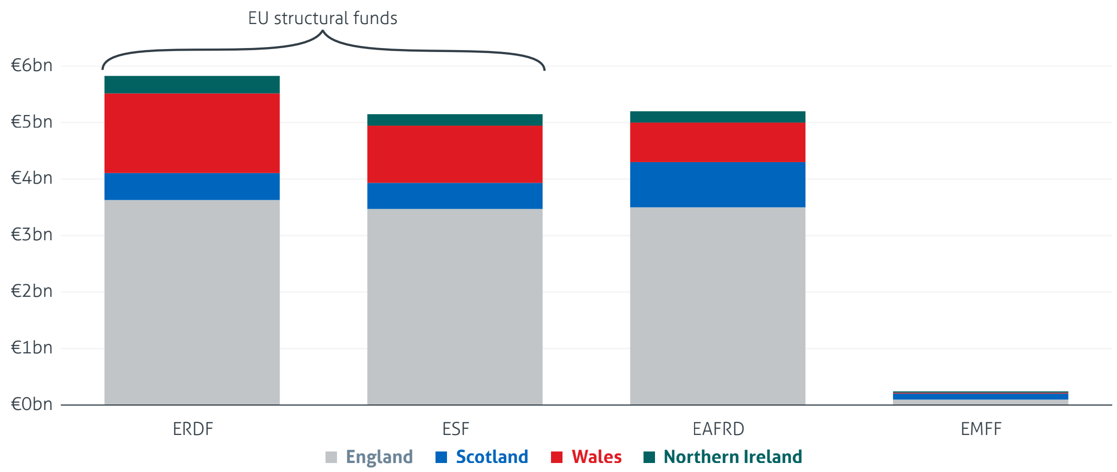
The EU operates a third structural fund – the Cohesion Fund (CF) – that invests in infrastructure and environmental projects in lower-income member states. The UK has never qualified for CF support due to its above average economic output per person.

The EU also runs separate funds that support rural development (the European Agriculture Fund for Rural Development, EAFRD) and fishing communities (the European Maritime and Fisheries Fund, EMFF). The EU categorises these along with the structural funds mentioned above as part of a suite of European Structural and Investment (ESI) Funds. However, within the UK the EAFRD and EMFF are not typically included in the government's use of the term 'structural funds', and the new UK Shared Prosperity Fund (UKSPF) is not expected to replace this expenditure. As such, except where explicitly mentioned, the EAFRD and EMFF lie beyond the scope of our analysis.[4]

* Resource spending is money that is spent on day-to-day project and administration costs. Capital spending is money that is spent on investments and things that create additional economic capacity.

Structural funds are allocated to member states on a seven-year budgetary cycle (the Multiannual Financial Framework, MFF). In the 2014–20 MFF, the UK as a whole was allocated €11.0bn (£9.4bn)* in structural funds: €5.8bn (£5.0bn) through the ERDF and €5.1bn (£4.4bn) through the ESF. This was supplemented by an additional €8.4bn (£7.2bn) in 'match funding' provided domestically, primarily by the UK and devolved governments.** This means that the total spending unlocked by EU structural funds in the UK over the 2014–20 cycle totalled €19.4bn (£16.6bn). The UK also received €5.2bn (£4.4bn) through the EAFRD and €240m (£210m) through the EMFF.***,****

Figure 1 **Allocation of EU structural funds and other EU spending by UK nation, 2014–20 Multiannual Financial Framework**



Source: Institute for Government analysis of European Commission, ESIF country data for UK, 2014–20 Multiannual Financial Framework. ERDF – European Regional Development Fund; ESF – European Social Fund; EAFRD – European Agriculture Fund for Rural Development; EMFF – European Maritime and Fisheries Fund.

Under the terms of the UK–EU Withdrawal Agreement, the UK is eligible for its full allocation of structural and other EU funds from the 2014–20 budget cycle, but it cannot apply for any further funds in future years.[5] Projects supported by the EU 2014–20 MFF did not have to be completed by the end of 2020 and funding claims for projects supported by the EU can be submitted until the end of 2023. Transfers from the EU for existing projects will continue to be made to recipient organisations in the UK for several years. As of June 2021, the UK had received 51% of the EU structural funds allocated to it for the 2014–20 period.[6] This means that in the coming years, the UK could receive up to €5.4bn (£4.6bn) in further payments through the ERDF and ESF.[7]

* At exchange rates as of 13 July 2021.

** Some match funding was provided by the private sector, civil society organisations, and grant-giving organisations such as the National Lottery.

*** Total UK receipts of ESI Funds may be slightly lower than the initial allocations, as payments are contingent on the approval and delivery of qualifying projects. Projects funded through ESI Funds do not have to be completed by the end of the 2014–20 budgetary cycle. The figure for the ESF allocation includes the €370m Youth Employment Initiative.

**** Components do not sum to total owing to rounding.

The devolved nations have been disproportionately high recipients of EU structural funds

The question of how the UK will replace structural funds is of particular concern to the devolved nations as they receive a larger amount of funding per person than England.

The EU allocates structural funds to specific regions within member states, using a formula that accounts for per capita GDP relative to the EU average, as well as local levels of employment, education and population density.[8] Relatively deprived regions are allocated a higher amount per capita than richer areas. In 2014–20, Cornwall was allocated €1,011 per person and the West of Wales €943 per person, while the region of Berkshire, Buckinghamshire and Oxfordshire was allocated just €31 per person (in 2011 prices).[9]

Because the levels of income, employment and population density of the UK's four nations vary, the per capita distribution of the funds between the four nations of the UK has been uneven. Though Cornwall received the highest individual regional allocation in the UK, overall the devolved nations received a higher share of funding per person than England. From the ERDF and ESF combined in 2014–20, England was allocated €7.1bn, or €130 per person; Scotland €940 million, or €180 per person; Northern Ireland €510m, or €280 per person; and Wales €2.4bn, or €780 per person. Compared with England, allocations of EU structural funds per person were a little over a third higher in Scotland, more than twice as high in Northern Ireland, and nearly six times as high in Wales.

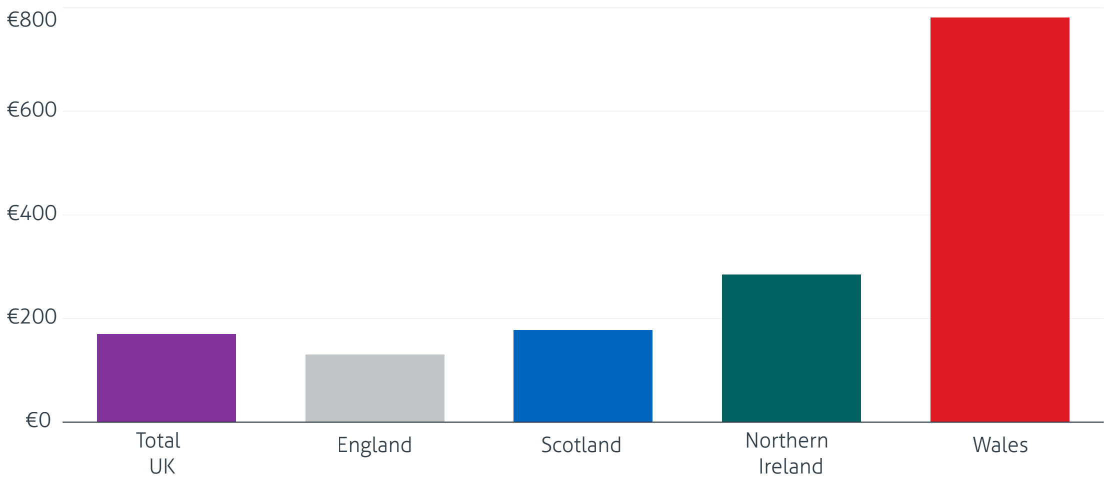
The uneven distribution between the four nations reflected the fact that per capita incomes in England are, in aggregate, higher than in the devolved nations. In addition, after the EU had made its initial allocations under the 2014–20 MFF, the UK government used discretionary powers to reassign some EU structural funds from England to Scotland, Wales and Northern Ireland.[10]

The variation in per capita funding between some parts of England was also high, reflecting large regional income disparities. The North East and South West of England received higher funding per person than Scotland and a similar level to Northern Ireland. This was almost nine times more per capita than the structural funds paid to the South East of England.[11]

Of the four UK nations, Wales has been most reliant on EU structural funds. EU structural funds were equivalent to just over 2% of the Welsh government block grant from the Treasury, compared to 0.6% for the Scottish government and 0.5% for the Northern Ireland executive.[*]

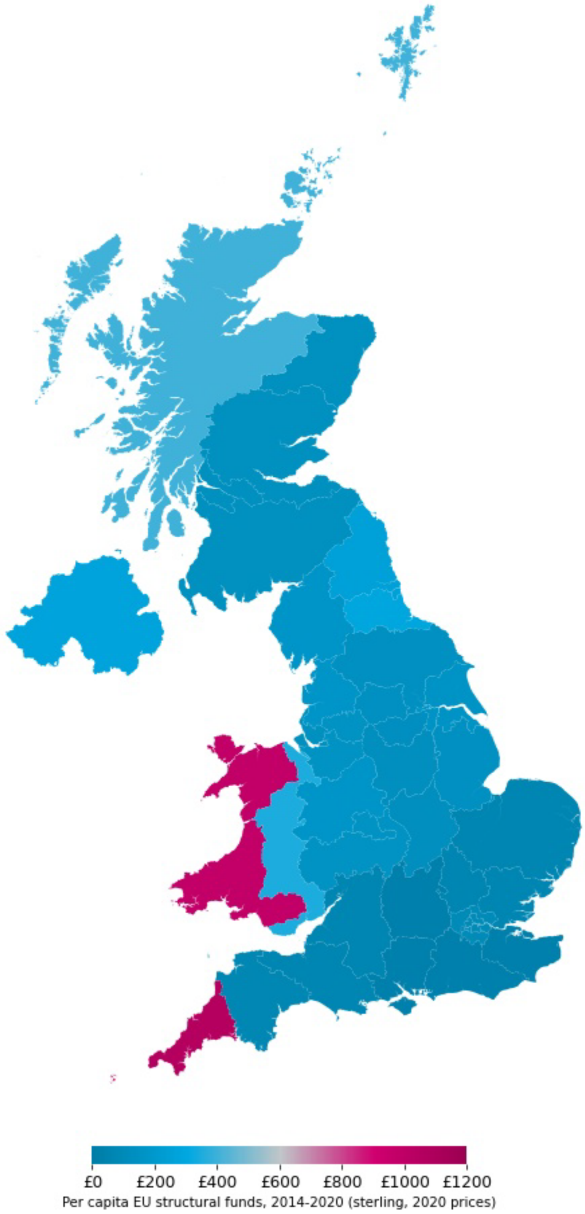
[*] The share has been calculated based on the 2019/20 block grant and the average annual receipts by the respective devolved government of EU structural funds over the seven-year MFF.

Figure 2 **Allocation of EU structural funds per person by UK nation, 2014-20 Multiannual Financial Framework**



Source: Institute for Government analysis of EU Commission, ESIF country data for UK, 2014-20 Multiannual Financial Framework; ONS mid-year population estimates for 2014. 'EU structural funds' defined as European Regional Development Fund and European Social Fund.

Figure 3 **EU structural funds allocations per person, by NUTS2 region, 2014-20 Multiannual Financial Framework**



Source: Institute for Government analysis of Department for Business, Innovation and Skills, *Equality Impact Assessment, EU structural funds allocations in the UK for the period 2014–20*, March 2014, www.gov.uk/government/publications/eu-structural-funds-uk-allocations-2014-to-2020. 'EU structural funds' defined as European Regional Development Fund and European Social Fund. 'NUTS2' refers to Nomenclature of Territorial Units for Statistics level 2 regions'.

The devolved governments had a high degree of autonomy in administering EU funds

When the UK was an EU member, the administration of EU structural funds was principally a devolved responsibility. The devolved administrations led in setting the objectives and guidelines for EU funds in their territories, in consultation with the European Commission. The UK government was directly accountable only for EU structural funds spent in England, with the Ministry of Housing, Communities and Local Government managing the ERDF and the Department for Work and Pensions the ESF.

The framework for the types of activity that could be supported with EU structural funds in 2014–20 was set out in the 2014 Partnership Agreement. Formally, this was an international treaty concluded between the UK government and the EU. However, the devolved administrations, as the managing authorities for the structural funds in their regions, authored their own chapters in the agreement.[12] One official in a devolved administration observed that the first version of the agreement read like four separate documents stapled together, and stylistic changes were needed to give it the appearance of a unified programme of investment, which was further described as a "formality".

The UK government at the time of the conclusion of the agreement cited the arrangements for delivering EU structural funds as evidence of their commitment to devolution. In the explanatory memorandum to the 2014 statutory instrument giving Welsh ministers the power to administer EU structural funds, the coalition government noted that:

> **"The Government's policy on European Structural Funds spending is that it is appropriate for England, Scotland, Wales and Northern Ireland to take responsibility for their own expenditure… The instrument is politically important in that it shows that the Government is committed to devolving powers, where appropriate, to Welsh ministers and demonstrates its commitment to regional spending being controlled at a regional level."**[13]

As a result, the devolved administrations exercised a high degree of control over the funds, within broad parameters set by the Partnership Agreement and the EU Common Provisions Regulation, which required minimum amounts of spend on certain specific areas, such as innovation. This allowed the devolved administrations to align ERDF and ESF expenditure from the EU with other devolved priorities and spending in areas like skills, business support and infrastructure.

For instance, the Welsh government allocated £233 million of ESF money to part fund its apprenticeships programme in the 2014–2020 cycle, and uses ERDF resources to support a suite of business support services through its Business Wales initiative.[14] The Scottish government in the same period has invested £78m of ERDF money into supporting the growth of small and medium-sized enterprises (SMEs), and £22m into a Low Carbon and Travel Programme to help fund the creation of charging bays for electric cars, secure bike storage facilities and cycle paths.[15]

The Northern Ireland executive has noted that control of structural funds allowed it to align spending priorities with its Programme for Government – agreed between all parties in government in Stormont – ensuring there is "no dilution of impact caused by overlapping areas of responsibility".[16] For instance, ESF funding in Northern Ireland was used to support a range of labour market interventions designed to help achieve the executive's strategic objectives to increase social inclusion and reduce economic inactivity.[17]

Before outline details of the UKSPF were announced at the 2020 spending review, the Scottish and Welsh governments set out their plans for how their respective investment strategies should work after EU structural funds ended.[18,19] The Northern Ireland executive also released a shorter paper setting out its perspective on the key issues for the UK government to address in the UKSPF.[20] Because responsibility for these funds was previously devolved, and the policy areas targeted by the funding are also primarily devolved competencies, the governments in Scotland, Wales and Northern Ireland all expected that they would remain key decision makers in the UK government's successor fund, broadly retaining the levels of autonomy they enjoyed under the EU system.

They have also said they would be willing to work with the UK government to design alternative approaches to delivering UKSPF spending – but that this offer has not been taken up by the UK government. The Scottish government has said that its engagement is conditional on it being treated as a "full and equal partner in the development and delivery"[21] of the replacement to EU structural funds, a condition that the UK government is unlikely to accept.

How does the UK government plan to replace EU structural funds?

The UKSPF is due to start operating in April 2022 as the main replacement for EU structural funds. But more than four years after the initiative was first announced, the UK government has provided little information on its design, the amount of funding that will be available, the allocation between different devolved nations and England, or the role the devolved administrations will play in determining spending priorities and administering resources in their territories.[22]

The UKSPF will be targeted at places and people in need across the UK

Acting on a commitment in the Conservative Party's 2017 manifesto, the UK government's *Industrial Strategy* white paper published the same year announced plans for a new fund to replace EU structural funds after the UK left the EU. The fund's stated purpose would be "to reduce inequalities between communities across our four nations".[23] The 2019 Conservative manifesto reiterated this intention, stating that:

> "The UK Shared Prosperity Fund will be used to bind together the whole of the United Kingdom, tackling inequality and deprivation in each of our four nations. It will replace the overly bureaucratic EU Structural Funds – and not only be better targeted at the UK's specific needs, but at a minimum match the size of those funds in each nation."[24]

A small amount of detail was provided in the November 2020 spending review. This described the overall purpose of the UKSPF as "to level up and create opportunity across the UK for people and places". The spending review also said that UKSPF spending will ramp up to around £1.5bn a year and "at least match current receipts from EU structural funds". It will also "operate over multiple years" to provide certainty and enable long-term planning.[25] Investments should be aligned with the government's clean growth and net zero objectives.

It was further specified that the fund will consist of two main portions. The first will "target places most in need" such as post-industrial towns and deprived rural and coastal communities, in which it will be focused on:

- Supporting local skills and vocational training tailored to local needs, such as work-based training

- Investment in transport improvements, digital connectivity, neighbour and housing improvements, and civic, cultural and sporting facilities

- Investment for local business, including to support innovation, adoption of new technologies, and a low-carbon transition.

The second part of the UKSPF will be targeted at people rather than places and will deliver employment and skills programmes to improve outcomes for "specific cohorts of people who face labour market barriers".[26]

The government has pledged to replace EU spending in full – but important questions remain unanswered

Although the government has made some grand commitments, there are some big unanswered questions that are of particular importance to the devolved nations. First, as noted, the government was elected in 2019 on a manifesto commitment that spending under the UKSPF would "at a minimum" match structural funds allocations in each of the four nations of the UK. The 2020 spending review's commitment was more vague: "Total domestic UK-wide funding will at least match receipts from EU structural funds." It did not reiterate the commitment that funding in each nation would be maintained.

This is an important issue for the devolved nations, given their greater reliance on structural funds to date. A key question for the UK government to answer is therefore whether it still intends to ensure that each of the four nations will receive at least as much funding as they did from the EU. It is also not clear how "current receipts" will be measured – by average spending per year over the whole 2014–20 period, spending in a particular year or period, or spending that the UK would have been eligible for in the 2021–27 cycle had it remained within the EU?

Second, it is not clear precisely which streams of EU funding are due to be replaced by the UKSPF. Without that clarification it will not be possible to assess whether the commitment to maintain the same level of spending is met. As noted, structural funds are generally taken to refer to money received from ERDF and ESF. Based on government statements and the investment priorities for the UKSPF, it is clear that the UKSPF is primarily intended as a replacement for these two pots.

However, devolved officials we spoke with suggested that aspects of other EU funding, for instance the LEADER programme,* which is part of the EAFRD and supports rural areas to prepare local development strategies, might also be included. The Scottish government has also claimed that Scotland would be due an additional small slice of funding to compensate it for the loss of access to European Territorial Co-operation (ETC) programmes, which fund development projects spanning more than one EU member state.

Third, although the UK government has committed itself to multi-year funding under the UKSPF, it remains unclear over what length of time funding will be offered. Interviewees in the devolved nations expressed concern to us that the UK government would be unlikely to match the seven-year funding commitments provided through the EU budget cycle and might be more likely to set budgets over a three- or four-year spending review period. A 2014 UK government study of EU cohesion policy found that the longer planning period allowed by the EU's seven-year budget cycle improved

* LEADER stands for 'Liaison Entre Actions de Développement de L'Économie Rurale' (Links Between the Rural Economy and Development Actions).

the delivery of economic development policy in the UK and "introduced an element of stability and transparency in financial planning".[27] This is another point that the UK government will be expected to clarify in the promised investment framework for the UKSPF.

The government has introduced a one-year UK Community Renewal Fund to bridge the gap with UKSPF funding

The roll-out of the UKSPF will follow on from the UK Community Renewal Fund (CRF), which is intended in part to build local partner capacity to apply for UKSPF funding. The CRF, worth £220m, was formally announced at the March 2021 budget to "help local areas prepare" for the UKSPF and provide interim funding as the flow of EU structural funds tapers down.[28] The CRF will provide up to £14m to help "build internal capacity and develop a project pipeline" ahead of the UKSPF launch.[29]

CRF funding is being allocated via a competitive bidding process administered by the UK government, with the Ministry of Housing, Communities and Local Government (MHCLG) as the lead department. In Great Britain, 'lead authorities' (the Greater London Authority, county councils, mayoral combined authorities where they exist in England, and unitary authorities elsewhere) will invite project proposals from a range of applicants – including district councils, voluntary organisations and local education providers – and from these applications will select a shortlist of projects, worth up to £3m per place, to submit to the UK government. In Northern Ireland, local applicants applied directly to MHCLG, without needing to go through either local councils or the Northern Ireland executive.

The UK government plans to allocate UKSPF resources directly within the devolved nations using powers under the UK Internal Market Act 2020

While the design of the UKSPF has not been finalised, the limited information in the public domain makes clear that the devolved administrations are set to have less control over how the UKSPF is spent in their territories than was the case with EU structural funds.

The UK government has said that the fund will operate "UK-wide" with "common branding" for projects that receive support. The 2020 spending review stated that the UKSPF would operate UK-wide using new financial assistance powers in the UK Internal Market (UKIM) Act. This Act, passed by the UK parliament in December 2020, allows the UK government to spend money in any part of the UK "with powers covering infrastructure, economic development, culture, sport, and support for educational, training and exchange opportunities".[30] The government is not required to consult with or seek the consent of the devolved administrations to spend money in their territories.[31]

The UK government has stated that the devolved administrations will have a "place within the governance structures" of the UKSPF.[32] The available evidence suggests that this is unlikely to be a partnership model in which the devolved administrations share control over how the UKSPF is spent. Rather, they are likely to play a 'consultative' role, on a par with other stakeholders – such as business and local authorities – with limited powers to determine spending priorities or select projects for support.

The design of the CRF also suggests the UK government is planning to take a centralised approach to the distribution of the UKSPF. The government has described the CRF as a pilot scheme for the UKSPF, and it is focused in part on building up the capacity of local councils to apply for funding through the UKSPF. The four CRF investment priorities – skills, local business, communities and place, and employment – are also similar to those set out for the UKSPF. This suggests the government envisions a framework for the UKSPF that is similar to the CRF model, where the UK government uses the fund to spend money directly with local partners across the country, including in the devolved nations.

CRF funding is being allocated to local partners across the UK by MHCLG. There was no consultation on the CRF with the devolved administrations before it was launched. The UK government has stated that "where appropriate" it will seek advice from the devolved administrations on projects at the shortlisting stage, "including on deliverability and alignment with existing provision".[33] However, from the devolved administration perspective, this has not given them any meaningful ability to shape the design of the CRF. We were told that the lack of engagement on the CRF, and also on the Levelling Up Fund, had made it harder to rebuild trust between the different governments during the development of the UKSPF.

What are the UK government's goals in creating the UKSPF?

EU structural funds have been an important source of financial assistance to support more deprived regions, but the system suffered from some well-documented drawbacks. The UKSPF may therefore offer the UK government an opportunity to develop a system for allocating funds that better reflects the UK's specific economic circumstances, and that helps ministers achieve other political and economic objectives. Although many details about how the UKSPF will operate remain to be confirmed, some of the government's core goals can be ascertained from government publications, ministerial statements and private conversations.

The UKSPF offers an opportunity to target investment across the UK more precisely

EU structural funds are allocated on a regional basis according to a single methodology applied across all member states. As discussed above, the level of funding is dependent on the region's GDP per capita compared with the EU average, as well as the level of employment and population density (although member states have some flexibility to reallocate funds between different regions). The employment and population density metrics in the EU's funding methodology have tended to work to the UK's disadvantage. Because the UK has comparatively high levels of employment and population density, it has tended to receive less in structural funds than some other relatively rich EU member states, even though the UK economy suffers from other structural problems such as higher levels of low-wage and precarious employment.[34]

A second limitation of the EU approach is the geographic scale at which structural funds are provided. EU funds are allocated to large regional territorial units (NUTS2*), comprising groups of local authorities, which do not necessarily capture local variation in economic development. Dundee City Council told an inquiry by the Scottish Parliament Finance and Constitution Committee that using NUTS2 as the unit of account "is far too large to address local versus regional disparity".[35] The Welsh government has also stated that it found the EU's approach of allocating funds to fixed geographical regions was too inflexible, making it difficult to integrate activities across regional boundaries to "maximise beneficial outcomes fairly across all parts of Wales".[36]

The UK government has already signalled a change in approach in the funding methodology it has developed for the CRF, which will help inform the design of the UKSPF. Its "index of economic resilience", which determines "priority places" for funding, is based on an expanded list of criteria that considers relative levels of productivity and skills, alongside income, employment and population density.[37]

* NUTS stands for 'Nomenclature des Unités Territoriales Statistiques' (nomenclature of territorial units for statistics). There are 40 NUTS2 regions in the UK.

The UK government believes that its approach will mean that funding can be better targeted towards local needs and is informed by "local insight".[38] Research by the Institute for Fiscal Studies supports this view in principle, suggesting that greater autonomy and discretion over spending at a local level can be associated with better outcomes, provided strong governance structures are in place.[39]

Representatives of local authority organisations also told us that some of the UK government's critique of EU structural funds was well-founded and there are "potential upsides" of the proposals. They argued that the administration of structural funds within the devolved nations was too centralised, and could result in a "one size fits all" approach that did not adequately consider local needs. The Scottish and Welsh governments have themselves recognised the scope to replace structural funds with a more decentralised system, with greater input from local government and regional organisations.

By assessing funding needs based on smaller territorial units, the UKSPF could therefore be more sensitive to local differences in economic development and relative deprivation. For example, the delivery framework for the CRF sets out a list of 100 local authorities that will be prioritised for support. Several of these "priority places" are located within NUTS2 regions that were classified as "more developed" (including Oldham, Southend-on-Sea, and South Somerset) under the EU methodology and therefore received a comparatively low level of structural funds per capita.

In theory, the UKSPF could improve upon structural funds by allocating resources in a way that is better informed by local knowledge and circumstances. However, the UK government has yet to clarify how local government and other stakeholders will be involved in decision making. Furthermore, UK ministers' approach so far to designing the UKSPF (and other related initiatives such as the Levelling Up Fund) suggests that the government intends to keep tight control of the system, rather than proceeding on the basis of partnership with devolved, regional or local governments.

The UK government intends the UKSPF to be less bureaucratic and quicker to deliver investment than structural funds

The UKSPF also provides an opportunity to reduce the levels of bureaucracy involved in the administration of EU structural funds. Introducing the UKSPF in May 2021, Robert Jenrick, the secretary of state for housing, communities and local government, stated that a key aim of the fund was to strip out "overly prescriptive categories for spending" and reduce bureaucracy.[40] The EU structural fund system can also be slow to deliver investment. We were told that local communities could wait up to two years before promised funds arrived at the front line.

Many officials we spoke to across the UK agreed that excessive bureaucracy was a drawback of the EU structural funds system. One official described the audit process – which member states must carry out to ensure structural funds are spent in line with EU rules – as a particular "bugbear". An inquiry by the Work and Pensions Committee noted that bureaucratic requirements of EU structural funds took little account of the size of the organisation, and were a particular burden for small, specialist organisations with limited capacity.[41]

The onerous evaluation and auditing requirements for EU structural funds are partly due to the fact that the same funding framework has to be applied in all member states, some of which have lower governance standards and weaker official capacity. According to Professor John Bachtler, who co-chaired the Scottish government steering group on replacing EU structural funds:

> **"The biggest challenge, particularly over the last five to 10 years, has been their regulatory complexity. What we have seen over time is a layering of rules and regulations, driven by concerns about value for money, effectiveness and various management issues."**[42]

An inquiry into the UKSPF by the House of Commons Wales Committee reached a similar conclusion, noting that:

> **"It is clear that for many respondents the current system of [EU] structural funding has been too centralised and overly bureaucratic. The development of the Shared Prosperity Fund represents an opportunity to implement a simpler administrative system."**[43]

In addition, as the Institute for Fiscal Studies has noted, the EU rules can create big discontinuities in the level of funding allocated to a given region between budget rounds, as a small change in GDP per capita can move a region into a different funding bracket.[44] A well-designed replacement scheme for structural funds could avoid the disruption that this can cause, by offering longer-term funding certainty and committing to avoid sudden cliff edges in support for particular communities.

However, until the government publishes further detail on its plan for the UKSPF, as part of the promised investment framework, it is hard to assess whether the fund will improve upon the system it is designed to replace.

The UK government regards the UKSPF as a means to strengthen the union

In addition to the practical ways in which the UKSPF could improve upon EU structural funds, the UK government has a strong political rationale for creating the fund as a single UK-wide system under its direct control.

Faced with nationalist pressures in Scotland, Northern Ireland and (to a lesser extent) Wales, the UK government has repeatedly made clear its intention to develop a strategy to strengthen the union. Previous UK governments, especially those of Tony Blair, Gordon Brown and David Cameron, took the view that enhancing the powers of the devolved institutions was the best way to shore up the union. By contrast, Boris Johnson's government appears to believe that the way to persuade voters of the value of remaining part of the UK is for the centre to take – and be seen to take – a stronger role in delivering public services and supporting the economy in all parts of the UK.

The UKSPF forms part of this new strategy of 'assertive unionism', which will see UK ministers taking a wider set of decisions about public spending in the devolved nations, using the powers provided by the UK Internal Market Act. The UK government has stated that the UKSPF provides an opportunity to "bind together the whole United Kingdom"[45] and showcase the benefits of a UK-wide approach to economic development investment.

By creating the UKSPF as a single UK-wide funding system, the UK government could – at least in theory – make it easier to implement cross-border projects than under the EU system, in which each of the four nations of the UK spent funds only in its own territory. This point is of particular relevance to the Wales–England border, since there is much more economic activity across this border than the sparsely populated Anglo–Scottish border.

The UK government hopes that by increasing direct spending in the devolved nations it will have a more visible presence and receive credit for the investment it provides to all parts of the UK. Douglas Ross, the leader of the Scottish Conservative Party, has called the UKSPF an opportunity for the UK government to strengthen the union by creating "a more tangible role for itself in delivering previous EU funding schemes".[46]

As well as the UKSPF and the CRF, the UK government has launched additional UK-wide funds in the form of the Levelling Up Fund and the Community Ownership Fund. The City and Growth Deals programme, in which bespoke deals across the UK are partially funded by the UK government, is also continuing.

The largest of these new funding streams – the Levelling Up Fund (LUF) – was announced at the 2020 spending review. Initially the fund was expected to apply only to England, but in February 2021 the government announced that the LUF would now operate across the UK, providing £4.8bn over three years.[47] In May 2021, the UK government stated that a UK-wide approach for the Levelling Up Fund "will enable the UK government to take a strategic view of the whole of the UK, allocating funding in all parts of the country irrespective of administrative borders".[48]

The UKSPF therefore appears to be part of a broader shift towards direct investment by the UK government into communities within the devolved nations, including via spending on primarily devolved functions.

What are the risks of the UK government's approach?

The UKSPF has been set up as a single fund that will operate across the UK under the direct control of ministers at Westminster. There are potential opportunities in this to improve upon EU structural funds – but this approach from the UK government also carries some substantial risks.

There is a risk of duplication or fragmentation of service provision within the devolved territories

Since the government's funding priorities for the UKSPF cover policy areas that are largely devolved, there is a risk that the fund could duplicate projects and policy initiatives led by the devolved administrations. This could lead to an inefficient allocation of resources, or even to funding schemes that pull in different directions in areas such as transport, business support and employment.

For instance, it was suggested to us that the UK government might be keener to spend on road building in Wales than the Welsh government, which would prefer to focus transport investment on improving the Welsh railway system. One particular example of brewing tensions relates to the proposed M4 relief road scheme near Newport, which the Welsh government has blocked but which UK ministers could seek to fund directly.

A Welsh local government official reported concern about a scenario in which some Welsh local authorities receive UKSPF money for business support, while the Welsh government provides alternative funding for those authorities that are not able to secure UKSPF funding. The official worried that this could result in there being "two business support systems in the same country", risking confusion and inefficiency.

The UKSPF will also provide funding for "bespoke employment skills programmes" across the UK. If these programmes are developed in isolation, they could be a further example of duplication, particularly in Scotland and Northern Ireland, which have greater devolved control of employment policy. In Scotland, for instance, control of the Work Programme was transferred to Edinburgh in 2016, since when the devolved government has developed its own initiatives such as the Fair Start and No-one Left Behind programmes.[49]

In such areas, there is a potential that the UKSPF could contribute to a fragmentation of service provision, in which local areas are supported via an array of different funding streams from both devolved and UK governments, including from other Westminster initiatives such as the Levelling Up Fund. These streams of funding come with their own bureaucratic overheads such as the costs of bidding for competitively allocated funding and reporting back on how the money has been used and with what outcomes secured. According to the Local Government Association, requiring councils to bid for funding through a competitive process diverts resources towards the application process, "placing additional stress on an over-stretched system".[50] There is therefore a risk that adding another competitively allocated source of funding will contribute to a rise in complexity, contrary to the UK government's desire to create a more streamlined system of economic support.

Centralised UKSPF administration could lead to a loss of local expertise and capacity

The lead department for the UKSPF, the Ministry of Housing, Communities and Local Government (MHCLG), has operated almost entirely as an English rather than a UK department, as the policy areas for which it holds responsibility are almost entirely devolved. Indeed, according to the 2020 spending review, at least 99.6% of MHCLG spending is for the benefit of England alone, with the devolved administrations given resources to fund similar functions themselves.[51] This means that as a department MHCLG has little experience of working within the devolved territories or knowledge of the distinct policy context in which the UKSPF will operate outside of England. By contrast, the devolved administrations have well-established mechanisms for delivering EU structural funds and long-standing relationships in their territories with recipient organisations in the education sector, industry and civil society.

The UK government has acknowledged the need for civil servants working on the fund to understand "the particular needs, challenges, opportunities and geography" of the places receiving funding. Rather than working with existing delivery structures within the devolved administrations, the UK government plans to recruit local officials to oversee the implementation of the UKSPF in different parts of the country.

Increasing the capacity of UK government territorial offices is sensible. But without collaborative working with the devolved administrations and local partners, the UK government is unlikely to be able to take full advantage of the capacity and knowledge already in place in the devolved nations. To avoid co-ordination problems with devolved administrations, there will also be a need to develop institutional mechanisms to ensure information sharing and consultation between UK and devolved governments, as well as with local councils.[52]

Delays to the UKSPF launch have hampered the devolved administrations' planning

With fewer than nine months until the UKSPF is set to be launched, the UK government has not yet published a detailed investment framework. The UK government has not held a public consultation on its plans for UKSPF, despite commitments in the 2017 Conservative manifesto and *Industrial Strategy* white paper to "consult widely".[53] A government consultation was originally due to take place in 2018.[54] In 2019, the government said the consultation had been delayed to focus on UK government contingency planning for a no-deal Brexit.[55]

As a result, basic questions regarding the UKSPF remain unanswered, such as the size of the fund, the national allocations, the detailed allocation criteria, the governance structure and the timespan over which funding will be made available. The lack of consultation and information sharing makes it hard for devolved administrations to budget effectively and will make it more difficult to ensure that the UKSPF and devolved schemes to support skills and economic development complement rather than compete with each other.

To date, UK ministers have not discussed these points much with devolved administrations, even though the UK government's plans represent a major change when compared to how structural funds were administered.

There have been regular meetings between officials from the devolved governments and MHCLG, as lead department for UKSPF. However, representatives of the devolved administrations told us that MHCLG had been unable to share almost any information on the plans for the fund, apparently because ministers at Westminster have not authorised officials to work in a more open and collaborative way.

The lack of UK ministerial engagement with the devolved administrations was noted by the chairs of the three devolved nations' Commons select committees in a letter to Robert Jenrick in June 2020.[56] A report by the Welsh Affairs Committee stated in October 2020 that consultation on the UKSPF has been "minimal" and substantive information from ministers "has not been forthcoming".[57] Welsh government officials have complained of a "deafening silence"[58] on the part of UK ministers.

We were told of plans to create a new inter-ministerial group that would bring together ministers from the UK and devolved governments to consider the UKSPF and other matters within the remit of MHCLG. This would be welcome, but it is not known when such a body will start operating nor what its terms of reference will be. So it is hard to determine whether this will help to improve the flow of information between the different governments.

As the UKSPF framework has yet to be published, officials in the devolved administrations have no funding projections against which to plan their own budgets.[59] As the Welsh Local Government Association noted in evidence to the Welsh Affairs Committee in May 2020: "Had the UK remained within the EU, Wales's eligibility for 2021–27 would already be known and detailed planning would be underway."[60] Devolved administrations have reported that the uncertainty over future funding has led to 'planning blight', and increased the risk of job cuts in third-sector organisations that would typically implement many of the schemes funded by structural funds. The Northern Ireland executive has already had to take steps to mitigate the impact of the funding shortfall. In the 2020–21 January monitoring round, it allocated an additional £42.5m from its block grant to the Department for the Economy to offset the effect of reduced EU structural funds.[61]

The delays have made it difficult for the devolved administrations to conduct longer-term planning of the kind needed for successful investment in skills and economic development. This issue is felt most acutely in Wales, given that EU funding has accounted for a relatively large share of total Welsh government spending on economic development. Rebecca Evans, the Welsh finance minister, noted that the certainty provided by long-term planning and multi-year funding agreements is particularly important as the four nations of the UK recover from the coronavirus pandemic.[62] This point is echoed by politicians and officials in all the devolved administrations.

The UK government's confirmation that the fund will "operate over multiple years" is therefore welcome, but ministers should clarify in the investment framework the precise number of years over which the fund will operate. More generally, the government should be more sensitive to how its delays in announcing the fund and lack of consultation in the design have impeded planning in the devolved administrations.

If the UKSPF is perceived to undermine devolution, this may harm support for the union

The UK government regards the UKSPF as important for demonstrating the value of the union to communities across the UK. UK ministers intend to spend money directly in all parts of the country, including on functions that are primarily devolved, so that it is the UK government that gets the political credit for these interventions. However, there is a possibility that this approach could backfire if voters perceive that the UKSPF is being used to undermine the autonomy of the devolved institutions in Edinburgh, Cardiff and Belfast, or to frustrate policy objectives set by the elected governments at the devolved level.

The legal basis for the UKSPF to operate within Scotland, Wales and Northern Ireland is provided by the UKIM Act, which gave UK ministers new powers to spend money in all parts of the UK in support of economic growth. But there is little precedent for the UK government to spend money on devolved functions in this way without the consent of the devolved administrations.

The devolved administrations have strongly objected to the plans for the UKSPF because they regard UK government spending on these devolved functions as an incursion into competencies for which they are democratically accountable under the devolution settlements. Michael Russell, until May 2021 the Scottish government cabinet secretary for the constitution, Europe and external affairs, has said that the new spending powers would "bypass the rightful decision-making powers of Scottish Ministers and the Scottish Parliament".[63] Vaughan Gething, the Welsh minister for the economy, described the CRF and plans for the UKSPF as a "deliberate, brutish attack on devolution".[64] This is one of the reasons why the Scottish parliament and the Senedd Cymru withheld legislative consent for the UKIM Act, which the UK government disregarded.

The Johnson government's plans also mark a shift from the position taken by the Theresa May administration. In 2018, James Brokenshire, then communities secretary, said that the UKSPF "will of course respect the devolution settlements in Scotland, Wales and Northern Ireland and will engage the devolved administrations to ensure the fund works for places across the UK".[65] In January 2020, a weaker commitment was made by the Wales secretary, Simon Hart, who told the House of Commons that the government's proposals for the UKSPF would not "in any way drive a coach and horses through the devolution settlement".[66]

Ministers at Westminster may assume that voters and communities at the devolved level will be grateful for the support from the UK Treasury, and will therefore give political credit to the government providing that support. However, there is much evidence that voters – at least in Scotland and Wales – tend to trust their devolved governments more than they do the UK government.[67] If the UKSPF becomes the focus of a war of words about the legitimacy of the UK government approach, there is a good chance that more voters will take the side of the devolved institutions.

There are specific problems to be resolved in Northern Ireland

The government must also set out how the UKSPF will be run in a way that complies with the unique circumstances in Northern Ireland, including the duty on public bodies to promote good community relations.

Section 75 of the Northern Ireland Act 1998, the Act that gave the Belfast/Good Friday Agreement the force of law, imposes unique statutory duties on certain designated public bodies in Northern Ireland to promote equality, which go beyond equivalent equality provisions in Great Britain. In addition to an "equality of opportunity" duty, Section 75 includes a "good relations" duty, which requires "all public bodies to have regard to the desirability of promotion of good relations between persons of different religious belief, political opinion and racial group".[68] However, MHCLG is not a designated body and is therefore not automatically bound by Section 75.[69]

Section 75 considerations will therefore need to be built into the delivery framework for the UKSPF in Northern Ireland. We were told that the UK government is "actively seeking" to apply Section 75 standards to the operation of the Levelling Up Fund and the CRF and intends to take a similar approach with the UKSPF. However, the Northern Ireland executive has argued that since it has extensive experience of administering structural funds in compliance with Section 75, it is best placed to apply Section 75 obligations for the delivery of the UKSPF.[70] It has suggested, for instance, that this should involve taking account of the "real or perceived community designations of recipients of funds".[71]

We also heard concerns that a scheme administered directly by the UK government, which it intends to promote as a UK-wide scheme with 'common branding', might struggle to secure cross-community support since some community and civil society organisations may be reluctant to apply for funding administered directly by the UK government.

In addition, the Northern Ireland executive has highlighted the importance of ensuring that UKSPF funding complements spending under the continuing PEACE PLUS programme, the successor to the PEACE IV programme, which supports peace and reconciliation and promotes economic development in Northern Ireland and the Border Region of Ireland.[*,72]

Historically, programmes that have been funded with EU structural funds have emphasised the importance of cross-border co-operation to support economic development, exporting and services.[73] The enduring importance of these projects is reflected in the fact that Northern Ireland is the only part of the UK where the EU will continue to co-fund a development programme.

The Northern Ireland executive is concerned that if the UKSPF is administered by the UK government, it will be harder to ensure complementarity between UKSPF spending and PEACE PLUS initiatives.[74]

A further challenge for the UK government is that MHCLG has little experience of working in Northern Ireland and administering project funding in compliance with Northern Ireland's equalities legislation. In a sign of the potential pitfalls of a centralised approach, the original version of the technical guidance for the CRF did not include Irish citizens living or working in the UK as eligible beneficiaries for funding, whereas other EU citizens resident in the UK with settled or pre-settled status could apply[**] (this was corrected in an amended version).[75] MHCLG is in the process of recruiting staff in Northern Ireland, as in the other devolved nations, and is working closely with colleagues in the Northern Ireland Office to ensure that the distinct circumstances of Northern Ireland are taken into account.

* The EU allocated €229m to Northern Ireland and the Republic of Ireland for the PEACE IV programme in 2014–20, in addition to the €513m in structural funds allocated to Northern Ireland through the ERDF and ESF over the same period.

** Irish citizens resident in the UK, a category that includes many thousands of residents of Northern Ireland, were not required to apply for settled or pre-settled status following the UK's withdrawal from the EU.

Conclusion and recommendations

After Brexit, it is legitimate for the UK government to take a different approach to structural funding and to seek to strengthen the union through UK-wide investment initiatives. However, this should be done in a way that respects the devolution settlements and takes into account the devolved governments' existing role in administering structural funds. Failure to do so risks further damaging trust between the UK and devolved governments at a time when inter-governmental relations are already strained. This could undermine the UK government's key objective of binding the four nations of the UK closer together.

We outline here some steps that the UK government should take to strengthen the appeal of its approach and mitigate some of the risks we have described.

Establish clear criteria for the allocation of funds across the UK

The UK government believes the EU funding system was not well matched to the UK's economic geography, and that the UKSPF offers an opportunity to develop a funding framework that is better aligned to the UK's developmental needs.

The UK government should therefore establish clear criteria for how it will allocate funds across the UK. Compared to EU structural funds, this could include a broader set of criteria to assess relative need, and a more targeted approach that considers differences in income and economic development on a local level (such as an individual local authority) rather than a regional level.

To build trust in the new system, the UK government should develop these criteria and the wider allocation methodology in a transparent way, with draft proposals released as soon as possible so that stakeholders have time to understand the funding framework and identify problems.

The UK government should also learn lessons from criticism of the allocation of the Towns Fund, a £3.6bn fund administered by MHCLG as part of the 'levelling up' agenda. An inquiry by the Public Accounts Committee in November 2020 said that it was "not convinced by the rationales for selecting some towns and not others".[76]

Create a system that minimises bureaucratic overheads for local delivery partners of UKSPF funds

The existing system of EU structural funding is widely acknowledged as being too bureaucratic. The European Commission and the European Parliament have themselves investigated ways to simplify the administration of these funds.[77] The UKSPF provides a clear opportunity to reduce the administrative burden on partner organisations by creating a streamlined application process and cutting back on onerous evaluation and audit requirements.

However, as we have discussed, the UKSPF is one of a number of new sources of funding that will be allocated to local communities using different mechanisms, often including competitive application processes. This risks increasing rather than decreasing complexity and administrative overheads.

To avoid this, the UK government should work closely with local partners across the UK to design a system in which new bureaucratic requirements are kept to a minimum, for instance by creating a risk-based and proportional approach to evaluation and audit.

It is welcome that £14m of 'capacity funding' is being set aside to help local areas to develop their proposals for UKSPF support. However, the government has yet to clarify how this funding will be allocated. When spread across the entire UK, £14m also seems unlikely to be sufficient, so the government should consider increasing this figure.

Improve consultation immediately

Regardless of the delivery model the UK government ultimately chooses to use for the UKSPF, it should improve its approach to consultation with the devolved governments as an immediate priority. Ministers should authorise their officials to share far more information than has been the case during the policy process so far, and should refrain from making any public announcements – such as the earlier launches of the CRF and Levelling Up Fund – without giving prior notification to the devolved governments.

MHCLG is currently establishing an inter-ministerial group for housing, communities and local government with devolved administrations. This would be a positive step that may provide a forum through which consultation and information sharing on the UKSPF can be improved. But details of how this body will work are yet to be confirmed. The government should swiftly set out a clear timetable and terms of reference for this new body.

Clarify how spending duplication will be avoided

The UK government intends to take the lead role in delivering the UKSPF across the whole of the country. This is intended to strengthen ties between the four nations of the UK, and to enable the UK government to take a strategic approach to structural investment that reflects UK-wide priorities.

This means that the UK government will be spending on policy functions that are predominantly devolved responsibilities. We have outlined the risk that this will produce unhelpful duplication of functions and fragmentation of service provision. This risk has been amplified by the low level of formal consultation during the design of the UKSPF.

The UK government must, as it finalises the investment framework for the UKSPF, clarify how it will ensure that spending under the new fund complements and aligns with spending programmes managed by the governments in Edinburgh, Cardiff and Belfast. This will require more effective information sharing at an early stage between UK government departments and the devolved administrations.

Create structures for working in partnership

The UK government has stated that the devolved administrations will have a "place within the governance structures [of the UKSPF] to ensure that funding is used to best effect and supports citizens across the UK".[78]

However, the commitment regarding governance arrangements remains vague, and could still be satisfied by the devolved administrations having only marginal influence, such as the right to be consulted. As one official noted, "'a place in the governance structures' could mean anything".

We recommend that the UK government designs a governance structure for the UKSPF in which the devolved administrations participate as partners rather than mere consultees. This could give the devolved administrations a role in selecting and overseeing projects in their territories, while operating within an overarching strategic framework set by the UK government.

UK ministers are likely to retain authority over final decision making, but the UK government should set out how it will engage with devolved counterparts at each stage of funding allocation, and how any disputes over funding decisions will be resolved, whether that is through the planned new inter-ministerial group or some other mechanism.

For the devolved administrations, the reality is that their preferred model of full control over the delivery of the UKSPF is not going to come to pass. So to maximise their influence, they should make the case to the UK government for how they could contribute capacity and experience to a partnership model. This would help ensure that projects funded by the UKSPF align with the developmental goals of both the UK and relevant devolved government.

Joint management of the UKSPF would also be in line with the recommendations of the Dunlop *Review of UK Government Union Capability* published by the UK government in March 2021. This proposed the establishment of a new fund for UK-wide projects, which would be spent by the UK government and devolved governments "working in co-operation". It also noted that "funding by the UK government in devolved areas must not replace core funding and must be applied with the support of the devolved governments".[79]

Both UK and devolved governments should also commit to working closely with local and regional partners in the actual delivery of UKSPF funds. City and Region Growth Deals, which are now in place in all four nations of the UK, provide a precedent for how this might work. In Scotland and Wales, these deals are governed by long-term three-way agreements between the UK government, the devolved administration and regional partners including local councils.[*]

[*] The first region outside England to be covered by a deal was Glasgow and the Clyde Valley in August 2014. The first deal in Wales was the Cardiff Capital Regional City Deal. The first city deal for Northern Ireland was concluded with the Belfast City Region in March 2019. (The Head of Terms for the Belfast City Deal was signed between the UK government, local councils, and the Northern Ireland Civil Service, rather than the Northern Ireland executive, as the Northern Ireland assembly was in a period of suspension.)

Consider a match funding model – at least for some projects

One way to embed joint working between the UK and devolved governments would be to allow for co-funded projects in devolved territories financed by both the UK government (through the UKSPF) and the relevant devolved administration or other local partners. This would give both governments a direct interest in how the project was designed and ensure that it was aligned with broader priorities of both administrations.

Match funding is an established feature of the way that EU structural funds are distributed. Projects supported by the EU must typically receive between 15–50% of the total budget as domestic match funding, depending on the level of economic development of the region. City and Region Growth Deals also operate a joint funding model, with the UK and relevant devolved government committing similar shares of the total budget. Any match funding system would have to be based on the principle of joint decision making – the UK government must not unilaterally take funding decisions and then compel the devolved governments to fund projects that they have not been involved in selecting.

Provide reassurances on the level and duration of funding

One of the advantages of EU funding cited by devolved governments and local authorities was the fact it operated on a seven-year budget cycle, meaning beneficiaries of structural funds benefited from long-term funding commitments.

The UK government has promised that the four nations of the UK will receive at least as much funding under the UKSPF as they did from EU structural funds. But it has not been clear about which specific UK funding initiative will replace each of the different EU funding streams, or the period over which this pledge applies. This makes it difficult to establish how post-Brexit funding arrangements compare to arrangements when the UK was an EU member.

As a result, officials in the devolved governments are not confident that funds from the UKSPF will match the EU receipts under the 2014–20 MFF. There is confusion over what exactly the UKSPF is replacing, and how other proposed UK government funds relate to it. Delays in finalising how the UKSPF will operate are exacerbating this uncertainty.

The UK government should provide assurances that the UKSPF will compensate for the funding gap caused by the delay to the start of the UKSPF. It should ensure that the UKSPF operates over a period of at least five years, with funding allocations for each of the four nations fixed for at least this period. This would allow the devolved administrations to budget effectively and co-ordinate their own investment plans with those of the UK government. For similar reasons, long-term funding guarantees would also be welcomed by local and regional bodies and front-line recipients of UKSPF support.

The UK government could address broader concerns regarding replacement funding when it releases the UKSPF framework by providing a breakdown of how all EU transfers will be replaced across all four nations, and appointing an independent body, such as the National Audit Office or Office for Budget Responsibility, to report on these commitments.

Clarify how the UKSPF will operate in Northern Ireland

The UK government faces specific challenges in rolling out the UKSPF in Northern Ireland, due to the need to allocate funding in a way that attracts support and has a sense of legitimacy across the community divide. Care should be taken, for instance, over the branding of UKSPF projects in Northern Ireland, due to sensitivity within nationalist communities over symbols associated with the British state.

The UK government must make clear how it will address the concerns raised by the Northern Ireland executive, and give a clear commitment that the UKSPF will apply Section 75 standards to funding decisions made in Northern Ireland. Given that MHCLG, the lead department for the UKSPF, has limited experience of working in Northern Ireland, it should work closely with the Northern Ireland Office in delivering the UKSPF there, at least until it has substantially built up its own local capacity and expertise.

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