LEVELLING UP: THE UK SHARED PROSPERITY FUND

REBUILDING BRITAIN'S COMMUNITIES

Executive summary

One of the main commitments made by the government since the 2019 election campaign has been to 'level up' the UK's underperforming regions, so that 'everyone can get a fair share of future prosperity'. According to figures from the Organisation for Economic Cooperation and Development (OECD), the UK has one of the most regionally unequal economies in the advanced world. At a more local level, Britain has the worst inequality among OECD countries, reflecting how differences within regions are even greater than those between them. A consensus has built up that these stark differences must be tackled. Andy Haldane, chief economist of the Bank of England, has challenged the government to address 'the interlocking issues of productivity, skills and place' that mean some regions are 'steaming ahead' while others have been 'left behind'.

Since the general election, covid-19 has drastically shifted the government's focus. In the second quarter of 2020 the UK experienced its largest fall in employment in over a decade according to the Office for National Statistics (ONS). The unemployment rate is close to a 40-year high. As Britain looks to rebuild post-covid, it is more important than ever that the government remains committed to tackling regional inequality and 'levelling up' the UK.

The comprehensive spending review (CSR), scheduled to be published this autumn, presents the government with an opportunity to implement one of the cornerstones of its 'levelling up' agenda: the UK shared prosperity fund (UKSPF). It is expected that the CSR will announce the size of this fund, revealing how much cash the government will commit to helping areas which have been 'left behind' by the affluence of London and the south east.

First proposed by the Conservative manifesto at the 2017 general election, the UKSPF will be the vehicle through which the government will aim to tackle regional inequality and to improve the lives of those in deprived communities. With the coronavirus already worsening inequalities, it is vital that the fund is designed with people and needs at its core. However, there are increasing concerns – especially among charities – that there will be disproportionate focus on infrastructure and capital expenditure.

This paper sets out a series of principles which would ensure the UKSPF is central to the delivery of the 'levelling up' agenda by supporting the creation of the social infrastructure needed to tackle regional inequality and to improve the lives of people in deprived communities.

The UKSPF, to be introduced in April 2021, will also act as a replacement for the funding the UK has received from EU structural funds for decades. Communities have benefitted greatly from funds delivered particularly via the European social fund (ESF) and European regional development funding (ERDF) which focus on skills, employability, regional inequality and the low-carbon economy. During the period 2014–2020, these funds saw around £9.15bn delivered to the UK, while estimates suggest that charities received around £258m annually from the EU, around £230m of which went to English charities. Furthermore, current estimates suggest that if the UK had remained a member of the EU, it would have been entitled to €13bn in EU funds during the period 2021–27, a 22% increase on the period 2014–2020 due to rising inequality.

Clearly the funds that have been received from the EU have been vital to the ability of charities to deliver transformative local projects, and a failure to replace this money could cause severe damage to that work. This is made even more urgent because of the vital role charities play in the UK's communities, meaning they will be needed more than before in the rebuilding effort required in the wake of the pandemic.

However, in the past many charities have reported that EU funding places a significant bureaucratic and administrative strain on them. The UKSPF therefore presents the government with a unique opportunity to design and distribute funds in a far more efficient way, allowing charities more power to exercise their local expertise and play their part in rebuilding Britain's communities. This opportunity must be seized upon and the voice of civil society heard when designing the fund.

The design principles set out in this paper therefore also take into account the successes and shortcoming of EU funding, as well as the expertise of charities and civil society organisations that have been involved in past programmes.

By designing and delivering the UKSPF following these principles, government would achieve its aim of producing a world-leading fund which begins to tackle the inequalities facing communities across the UK.

Introduction

The Conservative manifesto at the 2017 general election pledged a UK Shared Prosperity Fund (UKSPF) which would seek to 'reduce inequalities between communities across our four nations'. The fund is also expected to replace EU funding in the nations and regions of the UK.

Government has committed to introduce the UKSPF in April 2021, packaging it as an 'individual-centred skills programme' which is 'easier to access for those who need it most'.

The Conservative 2019 election manifesto pledged that the UKSPF will 'at a minimum match the size of [EU Structural Funds] in each nation [...] and ensure that £500m of the UK shared prosperity fund is used to give disadvantaged people the skills they need to make a success of life'.

With the UK entering into economic recession for the first time in 11 years, reporting a 20.4% drop in GDP in the second quarter of 2020, the government's ability to deliver such a wide-ranging fund has undoubtedly been affected. Since the onset of the coronavirus pandemic, the government has undertaken a programme of economic intervention hitherto unseen in peacetime. While its fiscal abilities have clearly been hampered, unemployment is on the rise and the chancellor has declared that 'hard times are here', warning of a further wave of job losses. Against this backdrop, a UKSPF which focuses on skills and training will be all the more important to get Britain's economy going again, playing a crucial part in the UK's recovery after the worst of the pandemic has passed.

The importance of the UKSPF in light of the UK's departure from the EU

As of 31 January 2020, the UK is no longer a member of the EU. We have now entered into the so-called 'transition' or 'implementation period', during which the UK is attempting to negotiate a free trade agreement (FTA) with the EU. The Treasury has pledged to underwrite all money that would have come to the UK from the EU in the period 2014–20. This includes the 'run-on' of EU funds, which refers to projects which were approved and funded as part of the 2014–20 cycle but whose life extends beyond 2020. This means that funding commitments made by the end of 2020 can involve spending that continues until the end of 2023 underwritten by the Treasury. There will, however, be no new money from the EU after the end of 2020.

The promise to, at a minimum, match the funds that currently come from the EU is a welcome assurance for charities in each nation. However the pledge on skills funding above does not specify whether this fund would be an annual amount or would be expected to cover the lifetime of this parliament, scheduled to close in 2024. It is essential that there is sufficient funding in any proposed UKSPF for disadvantaged communities and that there is not a disproportionate focus on capital expenditure. Given the figures above, it is imperative that the government provides clarity on the exact size of any proposed UKSPF in order to ensure that communities in need do not lose money on the ground.

Variations in EU funding levels and areas across the regions and nations of the UK mean that the impact of a potential non-replacement of funding could disproportionately affect certain causes or regions. Scottish charities, for example, received £25.1m in EU funding in 2015 compared to Welsh and Northern Irish charities, which received £1.2m and £1.4m respectively.

The funding charities in the UK have received from EU programmes has been critical to many of the most disadvantaged and vulnerable members of society often neglected by mainstream public services. It has been invaluable to the sector during years of austerity, helping to stop the gaps in prosperity from growing even wider.

However, the bureaucratic nature and delivery of EU funding has often impacted on the ability of providers to deliver programmes of support to their full potential. Many charities find that the stringent reporting requirements necessitate a great deal of time and resource being spent on administration rather than delivery.

With the UK no longer a member of the EU, the government has a once in a generation opportunity to develop a world-leading UKSPF that builds on the best aspects of EU structural and investments funding (ESIF) while addressing the design flaws which have led to excessive and unnecessary bureaucracy. This, in turn, will enable local actors – including civil society organisations – to play their part in the rebuilding effort after the pandemic.

The purpose of this paper is to set out a framework for how the UKSPF should replace EU funding in the most effective way and contribute to the recovery of the economy while tackling regional inequality.

Rebuilding Britain's communities through the UKSPF

Economic growth that is distributed fairly across society should be an overarching principle that drives the government's post-covid recovery efforts.

By helping to create a fairer and more equitable society where all communities have an opportunity to contribute to, and benefit from economic growth, 'inclusive growth' takes account of pre-existing individual and structural inequalities, the need to protect and promote human rights, and the pressing challenges presented by climate change. This approach capitalises on local, regional and national assets and resources, providing opportunities to refocus and reallocate resources to better meet needs and to improve efficiency.

The principles of equity and inclusion must be at the centre of the government's recovery plans. In addition to the moral and ethical imperatives to protect, support and ensure equal opportunities for all, there are clear economic benefits to improving equality by enabling more people to participate in economic activity[1]. The pandemic has brought many entrenched and emerging inequalities in our society into stark relief[2]. Inequalities – such as poverty, lack of access to high quality public services, safe housing, and health and social care services – are systemic rather than individual issues. Despite legislation, policies and workplace mechanisms[3] designed to improve equality for all, many inequalities have either not improved or worsened over recent years. Life expectancy has remained static over the last decade and has declined for the women in the poorest 10% of areas[4]. Poverty has remained relatively consistent, and deep poverty has increased[5]. Structural and systemic inequalities are not just prevalent in our communities and between citizens, but also within our public services and political systems[6].

Investment in social infrastructure must be at the heart of any inclusive growth strategy that drives the government's 'levelling up' agenda and post-covid-19 recovery efforts. The provision of social resources such as open spaces, sports facilities, healthcare, education and training, childcare centres, social care and youth services, are crucial to people leading healthier lives and participating meaningfully in society and the

[1] The disability pay gap currently stands at 28% McKinsey highlight that diverse organisations are on average more profitable and effective

[2] Black, Asian and Minority Ethnic people are twice as likely to die from COVID-19 an estimated 2.2 million people in the UK are severely food insecure

[3] Such as the Workforce Race Equality Standard (WRES) in the National Health Service

[4] http://www.instituteofhealthequity.org/resources-reports/marmot-review-10-years-on

[5] 14.4 million people in the UK are living in families in poverty. 4.5 million are children (33% of all children), 8.5 million are working age adults (22% of all working-age adults) and 1.3 million are pension-age adults (11% of all pension-age adults).

[6] This report highlights inequalities and oppression in the NHS. Ethnic diversity in politics and public life

economy. Charities and community groups are a vital component of a healthy social infrastructure, by providing advice, services and support networks for marginalised communities.

The coronavirus crisis has had a severe impact on the country's labour market, with the low paid and the young bearing the brunt of the impact[7]. As we emerge from the covid-19 pandemic and start to rebuild the economy, investing in employment and skills programmes that seek to address economic inequalities between communities will be paramount.

The UKSPF will be central to the delivery of the levelling up agenda by supporting the creation of the social infrastructure needed to tackle regional inequality and to improve the lives of people in deprived communities. By helping to create a fairer and more inclusive society where all communities have an opportunity to contribute to economic growth, an effectively designed UKSPF will help the UK fulfil its post-Brexit and post-covid potential.

The UKSPF should invest in services that support disadvantaged and hard-to-reach communities neglected by mainstream state provision. 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 levelling up agenda. Importantly, communities will also be better positioned to generate local opportunities for themselves and withstand the impact of economic shocks by becoming more economically resilient.

A well-designed UKSPF would assist public authorities in fulfilling their obligations under the Public Sector Equality Duty of the Equality Act 2010. Additionally, the cross-cutting themes of equal opportunities and gender mainstreaming – which cover both ESF and ERDF – should also be carried forward and would further orientate the UKSPF around tackling inequality and ensuring the representation of marginalised communities[8].

To deliver against these objectives, the UKSPF should be led through partnerships that develop community-driven solutions and build social cohesion and opportunities for people on the margins of society. **With much talk of the 'national effort' in recent months, there is an opportunity to put building social cohesion at the top of the agenda.** It must also have the values of reducing regional inequality, supporting the growth of small and medium-sized enterprises (SMEs) – which includes the majority of charities – and preserving and protecting the environment at its core.

This vision places the UKSPF at the heart of a long-term investment strategy, aimed at delivering significant long-term savings whilst helping to tackle some of the UK's most entrenched social problems.

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[7] https://www.resolutionfoundation.org/publications/the-full-monty/

[8] The UK government's own Equality Impact Assessment of the 2014-2020 ESIF concluded that the impact on equality would be "significantly positive", so there is high-level recognition of the importance and impacts of the structural fund's explicit focus.

EU funds

EU structural funds and the cohesion fund are financial tools deployed by the European Commission to carry out the regional policy of the European Union. Their overall aim is to reduce regional disparities in income, wealth and opportunities. The structural funds are made up of the European Regional Development Fund (ERDF) and the European Social Fund (ESF), as well as smaller pots of funding (the European Maritime and Fisheries Fund, LEADER programme for rural development, the European Agricultural Fund for Rural Development and the Youth Employment Initiative). Together with the common agricultural policy, the structural funds and cohesion policy make up the overwhelming majority of EU funding and total EU spending.

The ESF broadly focuses on employability, skills and training, seeking to help those furthest from the workplace. With unemployment threatening to rise to record levels, replacing it is paramount. ERDF, meanwhile, funds infrastructure, business support, research and development, small firms and environmental measures. With such a focus, the importance and relevance of these funds to the work of charities and civil society organisations in the UK is clear, particularly in areas of greater need.

The European Social Fund

The most significant component of EU funding for disadvantaged communities that the UKSPF will replace is the European Social Fund. The ESF offers crucial investment for the UK in education, training and employment support, specifically targeting some of the most vulnerable groups through a broad range of programmes and initiatives. This includes young people – particularly those who are not in education, employment or training (NEET) – long-term unemployed, people with disabilities and health conditions, people facing multiple complex barriers to employment, and prisoners, prison leavers and ex-offenders.

These funds have been incredibly important in generating positive employment and skills outcomes, particularly for the most deprived communities9. Between 2014–2020, the UK received €4.76bn of ESF funding, which when matched by national co-funding, brought the total spend on ESF projects to €8.7bn.10

In the period September 2016 to May 2020, elements of the programme operated by the Department of Work and Pensions (DWP) as a co-financing organisation provided 67,230 job starts.11

[9] https://www.jrf.org.uk/press/uk-government-needs-plan-boost-poorest-regions-following-brexit

[10] https://ec.europa.eu/esf/main.jsp?catId=443&langId=en

[11] https://www.gov.uk/government/publications/dwp-cfo-european-social-fund-2014-to-2020-statistics-to-may-2020/dwp-cfo-european-social-fund-2014-to-2020-statistics-to-may-2020

- 29% of starts up to May 2019 achieved a short job outcome, spending at least 13 weeks in work during a 26-week consecutive period.
- 24% of starts up to May 2019 achieved a sustained job outcome, spending at least 26 weeks in work in a 52-week consecutive period.

The funding round 2014-2020 earmarked a total of £500m per year and focussed on access to work and support for vulnerable cohorts including:

- young people (particularly those who are NEET)
- long-term unemployed
- people with disabilities and health conditions
- people with multiple complex barriers
- prisoners, prison leavers and ex-offenders.

Furthermore, of the £9.15bn allocated to the UK through ESF and Investment Funds over the 2014–2020 period, more than half (approximately £5.5bn) was linked to objectives that focus on issues of equality.[12]

The European Regional Development Fund

ERDF is the next most significant component of EU funding that the UKSPF will replace and is particularly important to addressing environmental degradation. ERDF aims to strengthen economic cohesion by addressing economic inequality between the regions of the EU, focusing on innovation and research, the digital agenda, support for SMEs and the low-carbon economy. It is aimed at regions where the gross national income per inhabitant is less than 90% of the EU average. Regional gross domestic product (GDP) is therefore the most significant criteria in the allocation of funding. In the multiannual financial framework (MFF) 2014-20, England received €3.6bn (£3.4bn at February 2020 exchange rate) in ERDF.[13]

The allocation of ERDF is based on regional categorisation into three bands: 'less developed' (where regional GDP is less than 75% of the EU average), 'transition regions' (where regional GDP is 75%-100% of the EU average) and 'more developed regions' whose regional GDP is above the EU average. During the period 2014-20, two UK regions were classified as 'less developed': West Wales and the Valleys and Cornwall and the Isles of Scilly. A further 11 regions were classified as 'transitional'. The UK government's allocation for ERDF in 2014-20 was as follows:

- Strengthening research, technological development and innovation: 21.6% of total ERDF spend (€777.6m)

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[12] https://www.equallyours.org.uk/uk-shared-prosperity-fund-equal-by-design/

[13] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/738242/ESIF_Online_Publication_2018_FINAL_UPDATED_040918.pdf

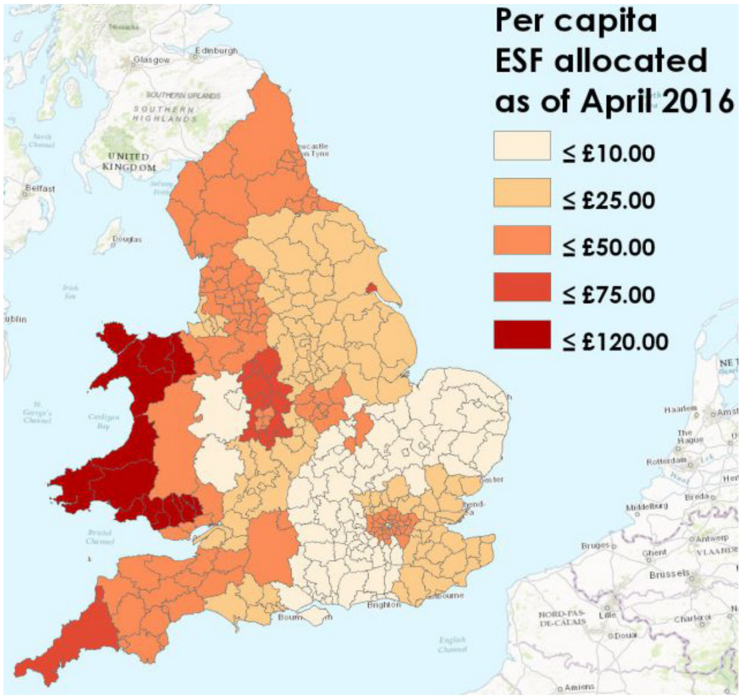
- Enhancing access to, and use and quality of, information communication and technology: 3.8% of total ERDF spend (€136.8m)
- Enhancing the competitiveness of SMEs: 40.4% of total ERDF spend (€1.45bn)
- Supporting the shift towards a low-carbon economy in all sectors: 17.3% of total ERDF spend (€622.8m)
- Promoting climate change adaption, risk prevention and management: 1.9% of total ERDF spend (€68.4m)
- Preserving and protecting the environment and promoting resource efficiency: 3% of total ERDF spend (€108m)
- Sustainable transport in Cornwall and the Isles of Scilly: 1.6% of total ERDF spend (€57.6m)
- Promoting social inclusion, combatting poverty and any discrimination: 1.4% of total ERDF spend (€50.4m)
- Technical assistance: 4% of total ERDF spend (€144m)

Many areas in the UK are falling behind the EU average, and inequality between the most affluent and poorest regions is stark. With the UK suffering the worst economic downturn of any G7 country to have reported by August 2020, these inequalities could yet grow starker. The GDP of the UK's wealthiest region, Inner London, is 614% of the EU average. West Wales and the Valleys, the UK's poorest region, has a GDP 68% of the EU average. The illustration below demonstrates wealth inequality across the EU; the UK's disparity is exponentially greater than in any of the EU27. Since the start of ERDF in 1975, the UK has received around €65bn.

The potential financial impact of not replacing EU structural funds

The withdrawal of EU funding without a replacement programme in place would have a serious impact on the vital support some of the most disadvantaged communities receive and would compound the economic devastation caused by the pandemic which is likely to hit those in greatest need the hardest. For example, based only on the 21% of the total ESF for 2014–2020 allocated by April 2016, figures from Policy in Practice14 show that under ESF:

[14] http://policyinpractice.co.uk/brexit-whats-next-esf-local-authorities/



- Local authorities in West Wales and The Valleys receive an average of £101.53 per person.
- Several local authorities in the West Midlands, Cornwall and Hull receive at least £50 per person.
- Several boroughs in North East greater London receive at least £50 per person.

Given this represents just over 21% of the total ESF for 2014–20, the per capita allocation of ESF for the whole period would be much higher.

Furthermore, in providing underpinning funding, ESF often helps attract money from other sources such as independent Foundations and the Big Lottery Fund.

The EU Commission has never stated the amount of structural funding the UK would have received for the MFF 2021–27. However, according to analysis by the Conference of Peripheral Maritime Regions (CPMR), if the UK stayed in the EU it would be entitled to €13bn of EU Structural Funds for the MFF 2021–27. This would constitute a 22% increase on the period 2014–20.[15] This estimate is based on the projection that due to the UK falling behind the EU average in regional prosperity and worsening regional inequality, three more areas would become classified as 'less developed' regions: South Yorkshire, Tees Valley and Durham and Lincolnshire. Along with West Wales and the Valleys and Cornwall and the Isles of Scilly, these regions would receive at least of €500 per capita in funding from the EU, an increase of £950m or £135m per year. Furthermore, the CPMR projects that 24 UK regions would be classified as 'transitional'. These regions are East Anglia, East Wales, Greater Manchester, Leicestershire, Rutland and Northampton, Outer London South, North Yorkshire and South Western Scotland. Extra funding in these regions as €50 per head would equate to an extra £80m per year.[16]

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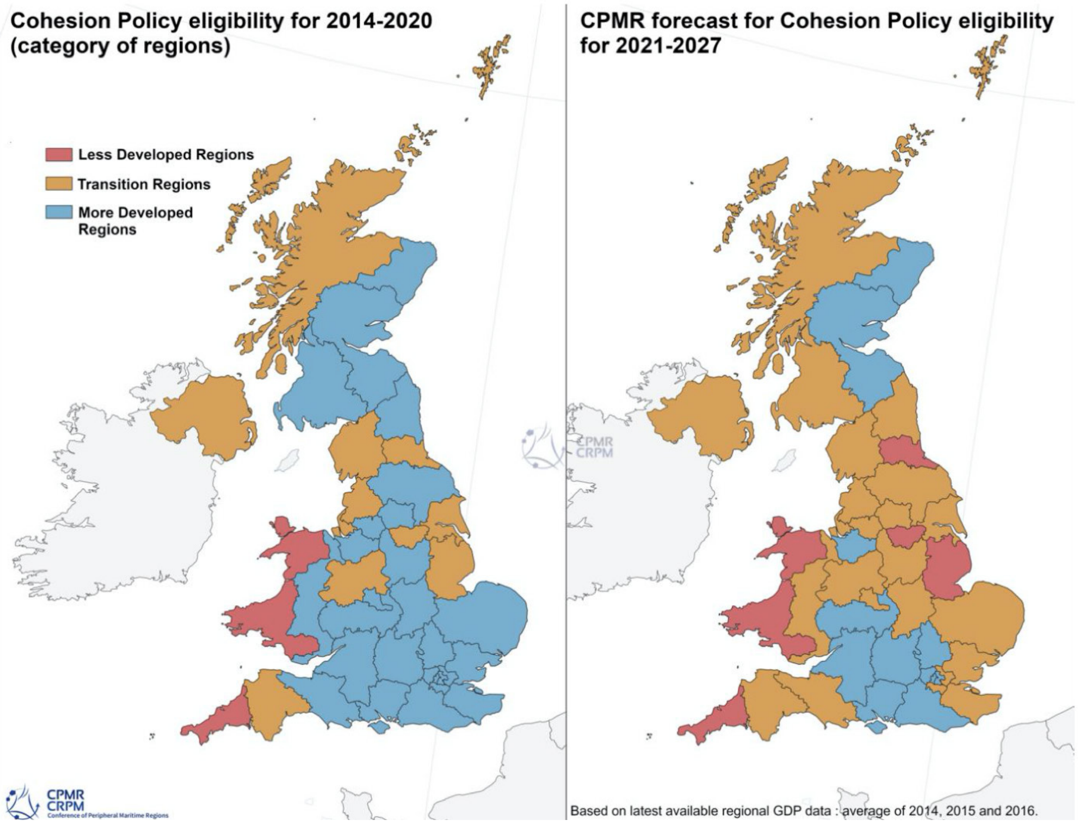
[15] https://cpmr.org/wpdm-package/uk-allocation-for-cohesion-policy-for-post2020/?wpdmdl=20524&ind=1550570009760

[16] https://static1.squarespace.com/static/5bb773c49b7d1510743e696f/t/5e3d7df6beb2d657db82222b/1581088248954/What+do+Britain%27s+less+prosperous+places+need+from+post-Brexit+funding.pdf

This research was undertaken before the onset of the covid-19 pandemic. With the economy in a significant worse state than it was only a few months ago, it is a matter of increasing urgency that the government ensures these funds do not disappear.



Recent work undertaken by a number of organisations has provided an idea of what the UK stands to lose if ERDF and ESF are not successfully replaced by the UK government. A report released by the Directory for Social Change calculates that in 2015, around 295 charities benefited from a total of £210.9m of EU funding under direct management (funds administered directly by the European Commission), while 113 charities received approximately £47.5m from structural funds under shared management (where the Commission is responsible for the finance but allocation is the remit of national governments).[17] Shared management finance was also received via the Common Agricultural Policy which focusses on the development of rural areas. While these figures are approximate due to the difficulties in the reporting of EU funding, they give an idea of the scale at which charities have benefited from EU structural funds. The table below outlines the DSC's estimate by funding area, totalling £258m in 2015. Of this money, £229,760,028 went to charities in England.

[17] https://www.dsc.org.uk/wp-content/uploads/2017/11/here.pdf

Funding Area	Amount allocated to UK charities in 2015 (£)
Aid	£121,691,208
Research	£59,474,707
Conservation	£35,443,983
EU-Specific	£15,514,208
Education	£9,524,033
Energy and Environment	£3,035,651
Home and Social Affairs	£2,942,666
Economy and Trade	£2,345,622
Health	£1,894,594
Foreign Policy	£1,413,888
Agriculture	£1,145,309
TOTAL	£258,423,869

Key design principles for the UK Shared Prosperity Fund

1. Make sure that it delivers interventions that reflect the link between health, wellbeing and employment services, as well as other interlinking barriers

The UKSPF should take a holistic approach by promoting service integration, preventative action, and community cohesion. Issues related to health and wellbeing can make participating in productive local economies difficult for certain groups. Similarly, an individual's ability to find work or take part in activities that increase their likelihood of finding employment can have a positive effect on other wellbeing factors such as mental health. Better co-ordination and partnership working between local actors – including frontline providers, public bodies, businesses, charities, communities and the public – would help to deliver more effective 'wraparound' support for people with multiple barriers while simultaneously helping agencies achieve shared outcomes.

A UKSPF founded on community partnerships that span sectors and organisations, combined with long-term funding, similar to ESF timeframes and across parliamentary terms, would not only facilitate better service integration, it could also provide significant cost savings for the Exchequer as highlighted by the NAO18.

It is also important that the UKSPF is not used to subsidise existing state provision. As such there should be a condition made that it only funds provision which is currently missed by mainstream support, creating a clear route of support for disadvantaged groups and people with complex needs neglected by existing public services. The funding mechanism should be designed to go above and beyond existing services and engage with the hardest to reach.

2. Be developed and delivered through cross-sector community partnerships which should be commissioned around place and needs

By bringing together charities, statutory partners, LEPs, voluntary sector infrastructure organisations, skills, training, employment support providers and other partners with specific areas of expertise and knowledge of local and regional needs, the UKSPF could deliver more effective and better value services. At its heart, services should be designed around people, rather than people being expected to fit into existing service silos.

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[18] https://www.nao.org.uk/wp-content/uploads/2013/03/Integration-across-government-Executive-Summary.pdf

This will help achieve:

Service Integration

Support should be holistic and cater for people with complex and multiple needs. An approach to delivering education, training and employment support based on places and needs that spans organisations and sectors could simultaneously help address other issues such as poor housing, social isolation, health and fragmented service provision as these issues are often interrelated. The NAO has noted how the integration of public services and programmes offers government the potential for substantial cost savings and service improvements, highlighting how better coordinated primary, acute and social care has led to cost savings and better services for patients in some local areas19. Similarly, a greater level of coordination between commissioners and providers would lead to a better fit between different programmes of support and help avoid overlap and duplication, particularly with existing state provision. It would also reduce the potential for service providers to compete for referrals.

An increasing number of examples of service delivery demonstrate how partnerships – for example between employment support and health professionals – are working successfully in practice through different programmes and in various geographies. These include Individual Placement and Support, NHS-Employability Partnerships social prescribing and more. As such, innovations in service integration should play a major role in the programmes developed through the UKSPF and how they interact with other public services.

Improved engagement

Closer working between delivery agents and statutory bodies would help to engage traditionally hard-to-reach groups by expanding the reach of a project or programme. For example, disadvantaged groups often know and trust local service providers, while these organisations often understand the challenges these communities face. Furthermore, specialist providers tend to already have existing support projects in place which can be used to complement the design and delivery of new programmes.

Better data sharing

A multi-agency and multi-sector approach to delivery would also facilitate the better sharing of information and good practice between organisations with different areas of expertise, for the benefit of service users. For example, Jobcentre Plus staff would be better aware of particular projects or programmes which they could either refer participants to or be aware that a participant was already taking part in, avoiding duplication of effort and unnecessary distress for the participant.

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[19] https://www.nao.org.uk/wp-content/uploads/2013/03/Integration-across-government-Executive-Summary.pdf

3. Foster innovation, bringing in new actors and finding new approaches to tackle entrenched problems

The UKSPF should be partly used to develop innovative ways of tackling entrenched social problems. By broadening the mix of delivery and development partners to include non-traditional actors with a good understanding and engagement with disadvantaged groups, the UKSPF could significantly improve support for inclusive growth.

These non-traditional actors should include:

Service users and volunteers

Service user involvement allows people who have experience of a service to become involved in its planning, development and delivery. Because of their experiences of using services, users have a unique insight into what works, which can then inform and improve services. For example, people with direct experience of employment, skills and learning programmes will be well-placed to identify challenges around referral processes and opportunities for the engagement of disadvantaged groups, as well as what works best. The UKSPF should therefore have a strong focus on enabling people with lived experience to be part of the commissioning process.

Similarly, volunteers can be an effective way to liaise with certain groups, as both mentors and befrienders, while volunteering as an activity can help move disadvantaged people closer to work by building skills and confidence, and providing work experience. However, it should be borne in mind that volunteering does not come for free and needs professional management or infrastructure.

Combined authority mayors and other local leaders

As the elected leaders of their areas, combined authority mayors will be able to raise the profile of entrenched problems relating to employment, skills and learning. As seen in Greater London, mayors can often influence policy areas and should play a role in the coordination of service provision which brings together councils, government bodies, frontline providers and businesses. Involving city mayors in the planning and development of employment and skills support for vulnerable groups would also align with, and support, the government's local growth and devolution agenda.

4. Include a mix of long-term funding and short-term trials, for stability and flexibility

The UKSPF should include programmes with a mix of short-term trials for flexibility and testing ideas, and long-term funding which provides stability for commissioners and providers, and allows for strategies to be forward thinking and preventative in nature. Under EU funds, projects are run and financed on a multiannual basis, allocated under the MFF. The MFF runs for seven years at a time, whereas UK spending reviews typically cover three or four years. Funding which works over several years makes sure there is scope for stability and ambition. It is imperative that the UKSPF has the capacity to support such projects, as well as shorter-term endeavours.

Short-term funding

The use of short-term funding, particularly through grants, can allow for innovative new ideas to be piloted and tested. Providing short term upfront funding can help providers develop proposals for longer-term solutions and help smaller specialist organisations participate in service delivery

Long-term funding

Long-term funding, such as contracts spanning three years or more, is particularly important as it provides financial certainty for commissioners and providers and enables continuity of support for service users. It enables the development of forward facing solutions, such as the use of preventative or early action initiatives which help overcome problems, including long-term unemployment, before they become harder to tackle, and allows beneficiaries to better address complex or entrenched issues by ensuring continuity in services. While most agree with the logic behind early action and its potential for long-term cost savings, current spending mechanisms limit investment in preventative initiatives. Longer-term programmes could help break away from the current patterns of spending and service delivery, which tend to focus on 'downstream' treatment and care. Not only would this benefit service users, it would make any proposed fund that replaces ESF more cost effective through what the Chartered Institute for Public Finance and Accountancy (CIPFA) labels a "public pound multiplier", where targeting public investment effectively reduces financial pressures elsewhere.20

In practice, a mixture of short-term pilots to test new ideas, leading to longer-term interventions will often be desirable, with all projects fully and independently evaluated from the start.

5. Involve a better and quicker process to identify need and allocate funds, providing an earlier return on investment and impact on communities

Distributing funding and identifying need

EU funding is managed outside of the Barnett formula. It is administered according to need rather than population (according to Annex XXII of the Common Provisions Regulation). The UKSPF must do the same. Contributions to an enquiry regarding the design of the UKSPF undertaken by the all-party parliamentary group (APPG) for post-Brexit funding strongly supported a needs-based allocation formula in England. The

[20] www.cipfa.org/-/media/files/topics/health/cipfa%20%20publichealth_v14.pdf

APPG was also highly opposed to any element of competitive bidding, which is likely to deflect from a strong focus on raising the performance of the less prosperous parts of the UK.

By avoiding the bureaucracy of EU legislation around co-financing, a replacement fund could better support a quicker process for identifying need and distributing funding. The asymmetric shape of the UK landscape in terms of disadvantage hotspots means that the distribution mechanism will require flexibility.

Identifying need and the distribution of funding should be determined by local boards consisting of statutory partners, local enterprise partnerships (LEPs), local voluntary sector infrastructure organisations, skills and training and employment support providers, alongside other partners with specific expertise and knowledge of local and regional needs.

Previously LEPs have been mentioned as a possible method for delivering the UKSPF, but questions have been raised about whether they are the best mechanism for doing so. If LEPs are chosen as the preferred method of identifying local needs and distributing funding, they should be required by law to have a dedicated UKSPF board with membership that reflects the local socio-economic landscape by including all relevant economic and community stakeholders, enabling inclusive growth planning to draw on the best local knowledge and insight. The involvement of local partners including voluntary organisations is key to this. However, despite being tasked with engaging deliberately and constructively with local partners, including 'third sector representatives' and 'community interest groups'21, a forthcoming assessment of England's LEPs by NCVO indicates that around two-thirds of LEPs' engagement with the voluntary sector is either inadequate or requires improvement.

LEPs should consider the voluntary sector as a key strategic and delivery partner to engage in all aspects of its business. The sector is major economic player in each LEP area22, making it an important partner for identifying local challenges and opportunities when investment strategies are developed. Voluntary organisations are also embedded in the communities they serve which provides them with unique insight into local experience and 'what works' when LEPs are designing and commissioning service interventions.

Should LEPs end up being the appointed delivery mechanism, steps will need to be taken by both government and LEPs themselves to improve engagement with local communities and the organisations that represent them. Regardless of the delivery mechanism, it is important that, in line with the government's devolution agenda, devolved administrations control the delivery of their allocated share of the UKSPF.

[21] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/768356/National_Local_Growth_Assurance_Framework.pdf

[22] https://data.ncvo.org.uk/impact/

6. Ensure ease of access for providers of all sizes and sectors

The effectiveness of any fund to deliver education, training and employment support to a range of target groups, such as young people, the long-term unemployed, people with disabilities and health conditions, ex-offenders, people with multiple complex barriers and those currently in work, requires a diversity of providers, each specialising in specific areas of activity. To achieve this, the UKSPF needs to ensure accessibility of funding to locally based providers of all sizes, who are closer to the needs of disadvantaged and vulnerable groups and have relevant specialist understanding.

Using appropriate commissioning processes and procurement methods is essential for maintaining a diverse market of providers and delivering value for money, making sure as much money as possible is channelled to the frontline.

Appropriate payment mechanisms

Where possible, grants should be the preferred procurement method. Competitive grant making often provides excellent value for money, from one-off projects to engage with beneficiaries to piloting a new idea where contract design and monitoring is deemed unnecessarily burdensome. The benefits of grant giving have been highlighted by the Lloyds Bank Foundation23, and NHS England's guidelines on the use of grants24. This would help put smaller providers on a more sustainable footing and increase the quality of some education, training and employment services, while also enabling charities to use other in-kind help, particularly volunteering.

Using grants does not have to be a risky investment for funders. For example, foundations manage risks with staged payments, robust reporting, and grant agreements. Indeed, grant funding can avoid being overly prescriptive or locking providers into set ways of running their services.25

Payment-by-results (PbR) is commonly used as a payment mechanism for government contracts. However, many organisations have expressed concerns about the continued use of this mechanism. In particular, PbR presents the following disadvantages:

- Recipients may face the need for pre-financing, higher monitoring and verification costs, and the difficulty of settling the incentive at the optimum level thereby This could leads to the risk of rent-seeking behaviour. This is likely to affect the diversity of the bidding market significantly.

[23] See https://voluntarycommunitysocialenterprisereview.files.wordpress.com/2015/06/vcse-health-review-foundation-perspective.pdf (page 4 onwards) and https://vcsereview.org.uk/2015/09/01/the-strengths-and-drawbacks-of-grant-funding-creating-a-sustainable-funding-mix/

[24] https://www.england.nhs.uk/nhs-standard-contract/grant-agreement/

[25] The 'Grants for Good' campaign highlights how grant funding from government is essential for communities to thrive, and aims to reverse the trend towards the increasing use of inflexible and overly restrictive. contracts https://www.dsc.org.uk/grantsforgood/

- PbR contracts can see risk transferred away from authorities such as government and towards providers.
- Given the increasing importance of social value in the new government's agenda, a focus on market prices and financial outcome will not allow for social value to be considered when assessing benefits.

As such, grants remain the preferred procurement mechanism where possible.

If, however, payment-by-results (PbR) is deemed appropriate for a contract (for example, following use of the NAO payment by results analytical framework[26]), the proportion of upfront payments to outcome payments should be carefully considered. This should be calculated on an assessment of the ability of the provider market to cope with the financial risk and cash flow implications. For example, the more specialist provision that is required because of the difficulty of the target group, the lower the proportion of payments based on outcomes and the higher the upfront 'attachment' fee.

Regardless of funding term, overhead costs of service providers should be covered. This is particularly important for smaller organisations who often struggle to cover core costs in contracts and grants. At the heart of this is the need for a greater weighting towards upfront funding than was the case under ESIF.

Contract sizes

The UKSPF should ensure that a greater proportion of smaller providers are able to participate as prime or lead contractors in programmes, rather than just subcontractors. To do this, appropriately sized contracts should be used where possible, which are likely to be smaller for non-mainstream, specialist interventions. When deciding the suitability of different contract sizes, existing relationships with service users, the size of the target group, the ability and willingness of the provider market to deliver certain contract sizes, the degree of specialist services required and an assessment of whether larger contracts can deliver economies of scale and lower unit costs should be carefully considered.

Where organisations are involved as subcontractors, support should be provided for assessing the service-level agreement with their prime contractor. Similarly, toolkits to help subcontractors negotiate contracts with prime or lead contractors would help make sure contract agreements are deliverable and mutually beneficial. Extending the use of DWP's Merlin standard[27] would help promote sustainable excellence within any supply chains developed and ensure subcontractors are treated fairly.

Tender timescales

The time given to respond to invitations to tender should be proportionate to the size and complexity of the contract in question. Often smaller organisations do not have the resources and staff time to develop

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[26] https://www.nao.org.uk/wp-content/uploads/2015/06/Payment-by-results-analytical-framework-for-decision-makers.pdf. See also the NAO's successful commissioning guidance https://www.nao.org.uk/successful-commissioning/sourcing-providers/

[27] http://merlinstandard.co.uk/

effective partnerships, budget and plan for projects and programmes at short notice. Where possible, commissioners should provide supportive dialogue and practical help and hold 'market warming' exercises at an early stage in the procurement process to help enable organisations to develop strong and effective partnerships for delivery.

Level of audit and administration

The UKSPF, while robustly and proportionately evaluating what works best, should seek to minimise the significant bureaucratic and administrative burden associated with ESIF programmes, which, due to audit requirements, have often undermined attempts to help the people who need support the most. For example, the new initiative should make sure that programmes are audited on factors directly related to value for money and quality of service, rather than providers' ability to show what proportion of funding has been spent on minor overheads. By no longer having the regulatory burden caused by the EU framework, the collecting and submitting evidence for outcomes achieved could be minimised and reflect the value of the contract, the nature of the client group being supported, and the style of intervention required. Indeed, the focus should be on simplifying the regulatory burden, so that evidence relating to outcomes and costs can be better compared between different programmes.

The use of generic contracts which include unnecessary clauses and requirements unrelated to the intervention in question should be avoided. Not only does this produce excessive auditing and administration requirements, it has a detrimental effect on service users as valuable resources are diverted from frontline delivery to unnecessary contractual compliance. Similarly, incorporating pre-contract dialogue into the tendering process would help make sure that programme outcomes are achievable.

The UKSPF should have clear plain-English guidance on all of the above which is standardised across commissioning authorities to avoid misinterpretation and conflicting objectives.

The local growth fund

Since the UKSPF was proposed in the Conservative manifesto of 2017, there have been calls for it to include the local growth fund (LGF), which covers skills, housing and transport due to an obvious overlap with ESF. While there is some support for this idea, the LGF has different priorities and processes to EU funding, and is allocated to England's LEPs by competitive bidding, unlike the data-driven allocation of EU funds. Its geography is distinct from EU allocations, meaning that some of the larger per-capita sums benefit relatively prosperous areas. The LGF is a distinct fund from ESIF in purpose, mechanism and design, and it should remain a separate fund to the UKSPF.

£12.1bn was committed to the LGF for the period 2012/13–2020/21. As such, if this fund were to be included in the UKSPF, it would require a significant increase in the total envelope for any such fund in order to make sure that all areas covered by both the LGF and ESIF are accounted for. A combined fund would reduce the scope for matching financing for some projects, requiring adjustments in rules and expectations, and the retention of competitive bidding would exclude many charities and voluntary sector organisations.

*For a list of case studies detailing ESIF in action, see ERSA's 'Sharing Prosperity' Report

List of signatories

- Lloyds Bank Foundation
- CFG
- Shaw Trust
- ERSA
- Salvation Army
- ACF
- ACEVO
- Charity Retail Association
- Local Trust
- VONNE
- Carers Trust
- Network for Europe
- The WEA
- Mencap
- United Response
- Steps to Work
- Barnardo's
- UK Youth
- Sutton College