Discussion Document

Beyond Brexit:
Future of funding currently sourced from the EU

July 2017
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1. Introduction

1.1. Following the referendum, one of the biggest concerns from councils was addressing the potential €10.5 billion (£8.4 billion) UK-wide funding gap for local government that would immediately open up from the point we officially exited the EU, unless a viable domestic successor to EU regional aid was in place.¹

1.2. The Local Government Association (LGA) successfully campaigned for guarantees for local areas over the remaining quantum of funding for the 2014-20 programming period, (HM Government, 2016) as well as guarantees for successor arrangements, once we leave the EU (LGA[a], 2017).

1.3. It is clear that unpicking our ties with the EU and renegotiating our relationship with Europe will impact the UK in a whole host of different ways (LGA[b], 2017), (LGA[c], 2017), (Parliament UK, 2017).²

1.4. Given the UK’s productivity deficit, trade imbalance and need to match the economic performance of our global competitors (LGA / Oxford Economics, 2015), (LGA / Value Adage, 2017)³, our widening skills gaps (LGA / Learning & Work Institute, 2017)⁴ plus the Government’s stated objective to balance local area economies via the Industrial Strategy, (HM Government[a], 2017)⁵ we believe that it is vital that local leaders across the country have access to the appropriate levers of growth.

¹ Based on the current ESIF programme, England and the devolved administrations in the UK had been set to receive a total of €10.5 billion (£8.4 billion) from the EU Structural and Investment Funds allocations for the period 2014-20, to support sustainable economic development and reduce regional wealth disparities (Parliament UK, 2016).

² The UK’s exit from the EU will have a significant impact at council level. Many scenarios ranging from ‘Hard Brexit’ to ‘Soft Brexit’ have been discussed at length by numerous commentators (Parliament UK, 2017).

³ The UK’s trade balance has been deteriorating and we now face an era of almost unprecedented uncertainty and volatility in global markets, with Britain’s impending exit from the European Union, growing protectionist sentiment, increased global competition and political instability (LGA / Oxford Economics, 2015), (LGA / Value Adage, 2017).

⁴ By 2024 there will be more than four million too few high-skilled people to take up available jobs, two million too many with intermediate skills and more than six million too many low-skilled. The LGA believes that by bringing employment, skills, apprenticeships and careers guidance services and providers into a one stop shop, it would result in a more coherent offer and improve outcomes for the unemployed / low skilled. See Work Local - Our vision for an integrated and devolved employment and skills services (LGA / Learning & Work Institute, 2017).

⁵ The Industrial Strategy states “Economic imbalances between different parts of Britain are larger than our competitors, with incomes and living standards lagging behind in too many parts of the country. These disparities hold back the country’s growth and limit opportunities for too many people.” (HM Government[a], 2017, p. 21)
1.5. We strongly believe that successor arrangements for EU funding should address these challenges, with an emphasis on enabling local areas to set their own priorities, and enhancing their capacities to adapt to unknown challenges that will need to be addressed after Brexit.

1.6. The first part of this report covers the LGA’s work to date; this includes a summary of our basic principles for successor arrangements, (see Table 1: Basic principles for successor arrangements for EU regional aid) and an analysis of our independent research into potential funding scenarios. It then covers the LGA’s campaign success in influencing all of the main party manifestos to recognise the risk of ‘no successor’ arrangements for EU funding for local areas.

1.7. The second part of the report presents in-depth analysis of three options, which aim to inform the design and delivery of successor arrangements, as follows: ‘Option 1: No change’ (p.12), ‘Option 2: Innovative flexi-fund’ (p.14) and ‘Option 3: Fully integrated’ (p.16).

1.8. The report also has three annexes: Annex A: Independent research: Beyond Brexit: Securing post EU local growth (p.22); Annex B: Manifesto commitments on the future of funding currently sourced from the EU (p.23) and Annex C: List of other EU funding initiatives that are important to councils (non-ESIF) (p.25).

1.9. The options and analysis presented are intended to kick-start a conversation, and we are keen to receive feedback. We are particularly interested in hearing about any opportunities and/or risks that are not captured by the analysis and that should be explored—particularly when these are bespoke to local areas.⁶

1.10. All information can be submitted to brexit@local.gov.uk

LGA is working closely with the three associations (Welsh Local Government Association (WLGA), Convention of Scottish Local Authorities (COSLA) and Northern Ireland Local Government Association (NILGA)) on key aspects of our work and evidence base.

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⁶ In addition to feeding this information into relevant government departments, we are also committed to providing an online hub for place-based information about the impact of exiting the EU www.local.gov.uk/brexit. Depending on the nature of the information we receive, this may be most effective if made publicly accessible. As such, it would be much appreciated if you could please indicate in your covering email if you do not want your local assessments made publicly available. Many thanks in advance for your help with this important work.
2. Background

2.1. Following the referendum, the LGA held wide consultations with councils and stakeholders to establish the basic principles for successor arrangements for EU funding; these were based in the main on known and desirable design principles, together with learning from current EU funding policies. (See Table 1: Basic principles for successor arrangements for EU regional aid).

2.2. Based on these principles, the LGA commissioned independent research into early thinking options on locally driven regeneration funding policy in the UK (LGA / Shared Intelligence, 2017). (See Annex A: Independent research: Beyond Brexit: Securing post EU local growth).

2.3. Most respondents to this independent research highlighted the strong opportunity to make successor arrangements for EU regional aid more flexible and responsive to local needs. The ‘silo’ approach to funding, where money is tightly controlled by Whitehall, was not seen as the answer to addressing the challenges and ambitions of local areas.

2.4. In particular, many agreed with the basic principles of greater flexibility, local control and pooling of resources. Many also made the point that these aims would be best achieved by devolved funds with single local investment pots. Both sets of work also identified the Industrial Strategy (HM Government[a], 2017) as the appropriate basis to start a conversation for successor arrangements.

2.5. Following the announcement of the 2017 UK Parliamentary general elections, the LGA lobbied strongly on the policy priorities that councils wanted adopted by each of the political parties in their manifestos, in order to help local government to better support their communities and deliver on the challenges facing the nation (LGA[c], 2017)

2.6. On EU funding we called for all political parties to “Commit to working with local government to develop a locally driven UK replacement for EU ‘regional aid’ to ensure local areas continue to thrive and contribute to the national wealth of our nation” (LGA[c], 2017, p. 2)
2.7. Importantly, we identified ‘no successor’ to EU funding as a worst case scenario, as this immediately introduced a €10.5 billion (£8.4 billion) funding gap for local areas. The case studies collected under the independent research clearly highlighted the risks to local growth and prosperity.

2.8. The LGA also raised the issue of the international comparative disadvantage this scenario would also introduce. Other member states, such as Greece, Hungary, Lithuania, Estonia and Latvia, would continue to receive relatively high levels of structural funding per person—over €500 per person, per year (based on averages between 2011 and 2015) (Parliament UK, 2016). This also underscores the key principle of why the full quantum of replacement funding (and rapid transition to successor arrangements) remains so important.

2.9. The LGA’s iteration of the risks associated with this scenario was widely accepted. By May 2017, all main UK political parties had published manifestos that explicitly recognised these risks and committed to successor arrangements (LGA[d], 2017). This was a significant achievement for the sector, given the fact that up to this point there had not been a clear consensus that a domestic successor to EU regional aid was necessary. (See also Annex B: Manifesto commitments on the future of funding currently sourced from the EU).

2.10. For example, the Conservative Party 2017 manifesto made the following commitment:

“We will use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations. The money that is spent will help deliver sustainable, inclusive growth based on our modern industrial strategy. We will consult widely on the design of the fund, including with the devolved administrations, local authorities, businesses and public bodies. The UK Shared Prosperity Fund will be cheap to administer, low in bureaucracy and targeted where it is needed most” (Conservative Party, 2017, p. 37).

7 The UK roughly equates to €107 per person, per year, which is amongst the lowest from the current 28 member states on average over the same period. See Brexit: UK funding from the EU (Parliament UK, 2016)
2.11. The Labour Party manifesto suggested the following:

“We will ensure there is no drop in EU Structural Funding as a result of Brexit until the end of the current EU funding round in 2019/20. As part of Labour’s plans to rebalance and rebuild the economy, we will ensure that no region or nation of the UK is affected by the withdrawal of EU funding for the remainder of this Parliament”. (Labour Party, 2017, p. 27)

2.12. Following on from the 2017 General Election and the publication of the Queen’s Speech 2017 (HM Government(h), 2017), the LGA has reaffirmed its pledge to work closely with the Government and its partners on the successful design and delivery of successor arrangements (LGA[a], 2017).
Table 1: Basic principles for successor arrangements for EU regional aid

1. **Opportunity for different and better** – Seize the unique opportunity to make domestic successor arrangements for EU regional aid more flexible and responsive to local needs.

2. **Successor funding for local growth is at least equal in value to the current European Structural Funds investment scheme** – England and the devolved administrations in the UK had been set to receive a total of €10.5 billion (£8.4 billion) from the EU Structural and Investment Funds allocations for the period 2014–20 (based on 2014–20 allocation, and adjusted for inflation currency movement) (Parliament UK, 2016). Clear guarantees to protect the full amount of this type of investment, to protect local regeneration plans, flagship infrastructure projects, employment and skills schemes and local growth in our communities, is now essential, alongside rapid transition. The successor arrangements must also incorporate the principles of additionality and complementarity to ensure the investment is delivering impact, and not simply plugging gaps in provision.9

3. **Maximum integration with other funding streams** – Domestic redesign should encourage and support integrated packages of financial support to drive sustainable growth and jobs within local areas, without the current policy silos, duplications, gaps and inconsistencies, which have characterised earlier schemes. It should also complement any future work on further business rate retention10 and the national Industrial Strategy (HM Government[a], 2017).

4. **Funding distributed over a stable period** – The current EU funding programme is allocated over a seven-year period, with a further three years allowed for projects to be completed and claims submitted. This is regarded by many as a significant benefit, as it allows for long-term planning beyond normal domestic funding cycles.

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9 EU funding is predicated on the concept of additionality, in that the funding contribution to a local project must add value to new or existing activity. Projects need to demonstrate that the activity paid for by ESIF would not have taken place in this form without its support source (HM Government, 2013).

10 The LGA has been working with the councils and the Department for Communities and Local Government (DCLG) to ensure that local government is vocal in shaping how further business rates retention could work if the Government goes ahead with the reform. See [www.local.gov.uk/topics/finance-and-business-rates/business-rates/business-rates-retention](http://www.local.gov.uk/topics/finance-and-business-rates/business-rates/business-rates-retention)
5. **Funding is easier to access and manage** – Domestic redesign should include a simplified and more proportionate approach to financial management, to allow for shorter time frames for decision, authorisation and payment.

6. **Space for experimental and creative approaches** – A small amount of any new fund could be piloted to try new ideas in regeneration and skills development.

7. **Funding interventions based on local determination and local delivery** – Domestic redesign should support the principle of a bottom up single, place-based strategy established around the needs of people (rather than separate institutions) to enable more targeted support for local key issues. It has to be able to sit within devolved structures and unlock the ability to implement real local discretion.

8. **Accountable to people and place**– Leaders of local government in England, Wales, Scotland and Northern Ireland have united around the call for further devolution to local communities across the UK after Brexit. (LGA[a], 2017), (LGA, COSLA, NILGA, WLGA, 2016).

   8.1. In England, for example LGA have previously called for responsibility for any future government funding for local growth to sit with combined authorities and councils. This will enable business leaders of Local Enterprise Partnerships (LEPs) to be key partners and to focus on providing hard-edged strategic business advice and influencing national economic strategy (LGA[e], 2017).

   8.2. In Wales, the Welsh Local Government Association (WLGA) has welcomed the proposal by the UK Government to put funding in place to support regional development after the UK leaves the EU but believes that Wales’ share of the proposed Shared Prosperity Fund should be devolved to Wales as economic development policy is a devolved matter, and that the amount of funding available to Wales should be no less than if the UK had remained in the EU. The WLGA believes that the Welsh Government should set the direction for future regional policy in Wales whilst ensuring that future policy is responsive to local needs. This means that decision-making and funding should be devolved down to the most appropriate level in line with the principle of subsidiarity, that local government should be actively involved in co-
designing a new regional policy for Wales and that it should be built on the work of the four Regional Partnerships already developing place based plans for their areas. Local Authorities, working collaboratively at a regional level with key partners from the wider public, private and third sectors, and the Higher and Further Education sectors, would then agree their regional development plans with the Welsh Government with funding allocated to each region to implement and deliver agreed shared outcomes. This would negate the need for national Wales wide programmes and ensure that future funding reflects local and regional needs and opportunities.
The LGA’s analysis suggests that three options for UK regional aid were possible following Brexit, as follows:

| Option 1: ‘No change’ | Successor scheme, but no change to design or delivery.  
Avoids the risks of hiatus or withdrawal, but locks current programme inflexibilities into the new arrangements.  
Introduces a higher risk of funding programme fragmentation, i.e. structural money that flows back to the UK is allocated to individual Whitehall departments and distributed on a ring-fenced basis, thus leaving less flexibility for local targeted funding.  
Local areas have less ability to adapt to ‘unknown’ post-Brexit scenarios.  
Not considered to be a realistic or desirable long-term arrangement. |
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Integration of all former ESIF funding programmes into flexi-fund single pot allocation, which is devolved to all Functional Economic Areas (FEAs).  
No reduction in overall value, non-silo approach and less ring-fenced.  
Better shaped to national/local outcomes (rather than process) and linked closely to the devolution agenda, as well as linking to relevant pillars of the Industrial Strategy (HM Government[a], 2017).  
Greater resonance with the basic principles (See Table 1: Basic principles for successor arrangements for EU regional aid).  
Local areas also have greater ability to adapt to unknown post-Brexit scenarios. |
| Option 3: ‘Fully integrated’ | As Option 2 (e.g. single pot allocation, flexi-fund for unknown post-Brexit scenarios, linking to Industrial Strategy) aimed at creating maximum benefits for the local economy, post-Brexit.  
Builds on this option by enabling the greatest flexibility for local areas to seek, bid and incorporate a funding streams range from funding programmes beyond structural funds (such as Horizon 2020 or the European Investment Bank (EIB) funding); See Annex C: List of other EU funding initiatives that are important to councils (non-ESIF)  
Incorporates and consolidates the full quantum of funding on supporting growth and regeneration, which is currently spread across 70 funding streams, managed by 22 government departments and agencies (LGA / Shared Intelligence, 2016) |
3. Option 1: No change

3.1. This option would mean a UK regional aid policy that mirrors the current ESIF funding programme in terms of structure, value and allocation timescales. The key difference being that the source of the funding would be from the UK government, rather than from Europe.

3.2. Under this scenario, the design of the programme would remain largely nationally-led under a singular set of priorities, which takes partial account of local needs, and would require adoption by councils and their partners. Funding would remain separate for the different streams, and likely managed by various government departments and/or managing agencies.

3.3. It is likely that in England the ESIF local area committee structure would be retained, and in the short term central government would take over many of the EU’s monitoring and evaluation duties, such as performance measured by outcomes, number of jobs created, SMEs supported or completion of capital transformational projects.

3.4. It is also likely that this option would retain the additional conditions that were announced as part of the HM Treasury funding guarantee for EU-funded projects approved before the UK leaves the EU (HM Government, 2016).

3.5. While Option 1 is desirable in comparison to having no successor arrangements (in terms of the removal of the threat of a funding cliff edge at the point the UK exits the EU), it presents a risk in that, by simply mirroring and locking in pre-Brexit models and approaches to growth funding, local areas are left underprepared and less able to adapt to unknown or uncertain post-Brexit scenarios in the UK.

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11 Thirty-nine Local Enterprise Partnership (LEP) areas support the delivery of the 2014 to 2020 European Structural and Investment Funds (ESI) Funds Growth Programme in England. (HM Government[e], 2017)

12 For ESIF projects signed after the Autumn Statement 2016 and which continue after we have left the EU, HM Treasury will honour funding for projects if they provide “strong value for money” and are “in line with domestic strategic priorities”. (HM Government, 2016).

13 Many scenarios ranging from ‘Hard Brexit’ to ‘Soft Brexit’ have been discussed at length by numerous commentators (Parliament UK, 2017).
3.6. The LGA’s analysis of how we will pursue the needs of local government throughout the Brexit process suggests that the risks and opportunities of leaving the EU will vary considerably by area of the UK (LGA[b], 2017).

3.7. Furthermore, the LGA has long asserted that there is no such thing as a singular sub-regional economy (LGA, 2013). With such diversity of place, it is not credible for a centrally administered system to maximise the growth potential across localities.

3.8. Option 1 would equate to a national growth-related funding resource allocated directly to individual Whitehall departments and distributed on a ring-fenced basis to local areas. This would effectively lock local areas into restrictive and ultimately fragmented funding arrangements, at a time when central government should be seeking opportunities to devolve powers to local communities through local government.

3.9. This would contradict the Government commitment in ‘The White Paper on Exiting the EU’ that it would “continue to champion devolution to local government and [is] committed to devolving greater powers to local government where there is economic rationale to do so” (HM Government[b], 2017, p. 19).

3.10. Option 1 is not considered a desirable or realistic long-term arrangement. A “silto approach to funding, controlled by Whitehall, is not the answer to addressing the challenges and ambitions of local areas. The LGA believes that design and delivery of successor arrangements for regional aid must be part of a new conversation between central and local government, and this is explored under Options 2 and 3.

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14 “There is no such thing as the English Economy. It is made up of city regions, county economies and sub-regional labour markets. It is not simply north/south. Whilst York thrives in the North, seaside economies lag behind in the south. The South-East is one of the richest economies in Europe, but the North-East is consistently voted the best region for business investment” (LGA, 2013, p. 3).

15 The White Paper states that the Government will “continue to champion devolution to local government and are committed to devolving greater powers to local government where there is economic rationale to do so.” The Local Government Association (LGA) called for this immediately after the referendum. We welcome this approach and will continue to work closely with the local government associations of Scotland, Wales and Northern Ireland to develop the detail of ‘double devolution’ to ensure that powers repatriated from the EU do not stop at Whitehall, Stormont, Cardiff Bay and Holyrood.
4. Option 2: Innovative ‘flexi-fund’

4.1. Option 2 represents a step forward, with a fundamental reworking of pre-Brexit funding arrangements into a more innovative and flexible single pot allocation, which is arguably a better fit for post-Brexit UK.

4.2. Under this option, to gain maximum value from future successor funding, we would advocate that the totality of former ESIF funding is aligned into a single ‘flexi’ funding pot and transferred directly to sub-regional devolved ‘Functional Economic Areas’ (FEA) for England and appropriately identified devolved administration the nations and regions.

4.3. A single funding pot could, for example, merge the local strands of the European Social Fund (ESF) and the European Regional Development Fund (ERDF), plus the development parts of the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

4.4. In England, the FEAs could arguably follow the funding distribution geography of the current ESIF programme, however, the important difference under this successor arrangement would be much greater control over funding decisions, which would be devolved to all local areas. This is opposed to ceding limited control to a few selected areas such as London regional government, combined authorities or other Intermediate Bodies (IBs) and Integrated Territorial Investments (ITI) as per current arrangements (HM Government[e], 2017).

4.5. Under the single pot principle, local areas would be afforded maximum flexibility to target need and tailor provision, to stimulate growth in local areas and contribute to the national economy. This requires a commitment to developing a fully integrated programme that brings together the people, places and business driven funding. It would, by design, enable investments from several funding streams to be combined for the purposes of multi-dimensional and cross-sectoral intervention.

4.6. For example, the combination of physical investments in infrastructure from ERDF with the investments in human capital from ESF is particularly relevant in the case of sustainable urban development. Case studies have similarly indicated that combined investments from ERFD
and EAFRD are particularly relevant for support to urban-rural partnerships.

4.7. It is accepted that funding could not be devolved unconditionally, and that a proportionate assurance framework would still need to be set. Many of the case studies from the independent report (LGA / Shared Intelligence, 2017) refer to the high level of bureaucracy in the current programme, and the fact that ERDF, ESF and other EU funding programmes were separate but added an extra layer of compliance that limited time and resources.

4.8. It is envisaged that the relevant pillars of the Industrial Strategy (HM Government[a], 2017) would form the basis of a revised post-Brexit thematic menu, meaning that important national policy developments would remain complementary to local priorities and vice versa. Local areas would also manage the governance structures, and determine those arrangements that would enable appropriate oversight and accountability.

4.9. Our analysis suggests that the integration of formally separated funding programmes into a single pot would simplify funding allocation processes, limit the duplication and bureaucracy of multiple bidding processes and free up time and resources (LGA / Shared Intelligence, 2014), (LGA / Shared Intelligence, 2016). This principle is further explored under Option 3.
5. **Option 3: Fully Integrated**

5.1. Option 3 represents the greatest flexibility in the design of a successor arrangement for regional funding and would enable projects to be designed that create maximum benefits for the local economy.

5.2. As with Option 2, there is a strong link between national outcomes to suit local circumstances via the Industrial Strategy (HM Government[a], 2017), however, Option 3 would go much further, as it would identify and integrate all post-Brexit growth-related funds and subsidies, including those that sit beyond EU structural funds.

5.3. For example, alongside structural funds, many local communities also currently benefit from UK participation in a range of smaller European funding programmes, such as Horizon 2020, Interreg, LEADER programmes and the Erasmus (HM Government[b], 2017). See also Annex C: List of other EU funding initiatives that are important to councils (non-ESIF).

5.4. Upon leaving the EU the Government has already indicated in ‘The White Paper on Exiting the EU’ that choices need to be made about how any such funds are to be accessed, e.g. “Once we have left the EU…there may be European programmes in which we might want to participate. If so it is reasonable that we should make an appropriate contribution” (HM Government[b], 2017, p. 49).

5.5. The LGA believes that there are clear reasons why the Government should consider the needs of local communities as these post-exit financial decisions are made. In addition to structural funds and providing access to other EU funding initiatives that are important to councils, Option 3 would also go much further and bring together the full quantum of the national growth-related funding under the flexi-fund arrangement.

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16 In 2016 the UK Government paid £13.1 billion to the EU budget, and EU spending on the UK was forecast to be £4.5 billion. So the UK’s ‘net contribution’ was estimated at about £8.6 billion. UK public sector receipts in 2016, mainly from the European Agricultural Guarantee Fund (EAGF), European Agricultural Fund for Rural Development (EAFRD) and the Structural Funds, are expected to be around £4.5 billion. The majority of these receipts will either be paid to, or used in support of, the private sector, but are channelled through government departments or agencies (HM Government[c], 2017).
5.6. As we suggest under Option 1, current government spending to support economic growth and regeneration is still too fragmented and wasteful and the silo approach to funding, controlled by Whitehall, is not the answer to addressing the challenges and ambitions of local areas or dealing with unknown or uncertain post-Brexit scenarios in the UK.

5.7. Independent research commissioned by the LGA reveals that over £23.5 billion of identified spending on supporting growth and regeneration is spread across 70 funding streams, managed by 22 government departments and agencies, each with different objectives, timetables and rules. The majority of this funding is subject to little or no local influence or control to drive growth and create jobs. Our findings illustrate how this acts as an impediment to joined-up policy making and the effective delivery of local services, as it inherently fails to focus on the wider needs of communities. (LGA / Shared Intelligence, 2016)

5.8. We believe that fully integrated financial devolution would allow funds to be spent with much fewer restrictions and enable the most effective framework for integrated or pooled funding. This would enable councils, who understand their communities and places better than central government, to better target taxpayers money to the needs of people and places.

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17 The LGA commissioned independent research that identified a proliferation of numerous non-place based funding streams, managed by different Whitehall departments and agencies, many of which are subject to competitive process, create greater uncertainty, wasted bureaucracy and poor value-for-money (LGA / Shared Intelligence, 2014), (LGA / Shared Intelligence, 2016).
5.9. There are many other mainstream studies that evidence a clear and positive link between fiscal decentralisation and economic growth.\(^{18}\) Without fiscal autonomy and flexibility in local government finance, local government will always be constrained to the degree to which it can unleash local economic growth potential, how flexibly it can respond to local needs and circumstances, and also in its ambition to take risks in meaningful local projects in which it must first seek assurances from central government (as the main funding source) for any significant investment.

\(^{18}\) For example, the *Heseltine Review* set out a strong case for the alignment and devolution of skills budgets to address employer demand. By devolving 16-19 year old, and post 19 year old skills and apprenticeships budgets to localities, partners would be enabled to adapt skills provision to meet local employer demands and help drive long-term productivity. Research based on evidence of what councils are already doing estimates that such an approach would see a £1.25 billion saving, and cut youth unemployment by 20 per cent in three years (Heseltine, 2012).

The LGA *Whole Place Community Budget Report* finds clear opportunities for better outcomes through the adoption of the principles of community budgets. This was demonstrated through the level and extent of the evidence provided by the pilot sites in the submission of the business cases. Community budgets have the potential to deliver improved outcomes, but substantial and systemic reform to existing delivery models will be required to realise the potential level of benefits See: Whole place community budgets: a review of the potential for aggregation (Ernst & Young, 2013).

6. References


HM Government, 2016. *Her Majesty’s Treasury (HMT), Chancellor Philip Hammond Guarantees EU Funding Beyond Date UK Leaves the EU*. [Online]
LGA discussion document: Beyond Brexit: Future of funding currently sourced from the EU

Available at: www.gov.uk/government/news/chancellor-philip-hammond-guarantees-eu-funding-beyond-date-uk-leaves-the-eu


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Annex A: Independent research: Beyond Brexit: Securing post EU local growth

1.1. In December 2016, the LGA commissioned Shared Intelligence Ltd to provide independent research under our post-Brexit EU funding work stream. The research had two components:

Part 1: case study material to support the case for a successor to regional aid once the UK has left the EU and Part 2: policy recommendation on what this could look like.

1.2. The report ‘Beyond Brexit: Securing post EU local growth’, presented a range of findings based on records of conversations with a number of councils, LEPs and other partners, such as universities and third sector organisations. The feedback demonstrated a balanced view of the current EU funding programme, its benefits and weaknesses and a several consistent recommendations for successor arrangements.

1.3. The case studies in the independent report highlight the clear economic risks that emerges if no successor regional aid type policy is in place at this point. Not having access to this amount of support for a successive funding period would have negative outcomes in terms of job creation, Small Medium Enterprise (SME) support etc.

1.4. In the absence of successor business and employment subsidies, it is clear that key areas of the UK would quickly be disadvantaged in terms of global competition, as it is likely that other comparable regions of the EU would continue to receive targeted EU resources.

1.5. The need for devolution, alongside linking post-Brexit funding in a more simple and flexible way. to communities to ensure that local priorities are at the forefront of programmes were key messages from these conversations.

1.6. There was an overarching view that the recasting of the funding programme provided a historic opportunity for the Government to reorganise local structures and funding mechanisms and do things differently, with a view to achieving greater devolution.

1.7. These conclusions strongly correlate with the LGA’s established principles for UK replacement of EU regional aid (See Table 1: Basic principles for successor arrangements for EU regional aid). The full analysis is available on request from brexit@local.gov.uk
Annex B: Manifesto commitments on the future of funding currently sourced from the EU

The Conservative and Unionist Party

“We believe in one nation – in helping every part of our country share in the prosperity and opportunity of our great United Kingdom. Yet there is much to do. Current EU-wide structural funding was designed to tackle disparities but it is expensive to administer and poorly targeted. As we leave the European Union, we must look at how we can better reduce and eliminate these inequalities.

We will use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations. The money that is spent will help deliver sustainable, inclusive growth based on our modern industrial strategy. We will consult widely on the design of the fund, including with the devolved administrations, local authorities, businesses and public bodies. The UK Shared Prosperity Fund will be cheap to administer, low in bureaucracy and targeted where it is needed most.”

(Conservative Party, 2017, p. 37)

Democratic Unionist Party

“25. Ability to opt-in to EU funds where proven to be cost-effective and add value

26. Continued participation in funding programmes that have been proven to be of benefit and are open to non-EU members e.g. research funding

28. UK wide skills and infrastructure funds should be established to lead with an emphasis on regional specialisations” (Democratic Unionist Party, 2017)

Labour Party

“We will ensure there is no drop in EU Structural Funding as a result of Brexit until the end of the current EU funding round in 2019/20. As part of Labour’s plans to rebalance and rebuild the economy, we will ensure that no region or nation of the UK is affected by the withdrawal of EU funding for the remainder of this Parliament. This will also apply to the funding of peace and reconciliation projects in Northern Ireland.” (Labour Party, 2017, p. 27)

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Liberal Democrat

“We would guarantee to underwrite funding for British partners in EU-funded projects such as Horizon 2020 who would suffer from cancellation of income on Brexit.”

“Prosperity is very unevenly spread across the nations and regions of the UK. The prospect of Brexit, including the loss of £8.9 bn of European Structural and Investment Funds, is only likely to make the problems faced by disadvantaged areas worse. Local autonomy with real financial muscle is the only sustainable answer to the regional divide.” (Liberal Democrats, 2017, p. 41 & 44)

UKIP

“Coastal towns will have top ranking when it comes to national successor funds to the European Regional Development Fund.”

“When we leave the EU, we will regain control of the regional development budget, over £1 bn a year. UKIP will use some of this to boost capacity in UK-based modular homes manufacturing. We will enable the manufacture of modular homes where jobs are needed, and they will be built where homes are needed.” (UKIP, 2017, pp. 15-16)
## Annex C: List of other EU funding initiatives that are important to councils (non-ESIF) ¹⁹

<table>
<thead>
<tr>
<th>Funding stream</th>
<th>Total fund amount 2014-20 (EU-wide)</th>
<th>UK share in 2015 (unless otherwise stated)</th>
<th>Description of fund’s purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asylum, Migration and Integration Fund (AMIF)</td>
<td>€3.1bn</td>
<td>€370mill (2014–20)</td>
<td>Funds actions that promote the efficient management of migration flows.</td>
</tr>
<tr>
<td>City Vitality Sustainability Initiative (CIVITAS)</td>
<td>€200mill</td>
<td>€2-4mill estimated for Aberdeen project (only UK project in 2016–20 phase)</td>
<td>Funds the implementation of ambitious, integrated, sustainable urban transport strategies. CIVITAS also funds the evaluation of these strategies.</td>
</tr>
<tr>
<td>Competitiveness of enterprises and SMEs (COSME)</td>
<td>€2.3bn</td>
<td>€0.97mill</td>
<td>Aims to improve SMEs access to finance, access to markets, create better conditions for competitiveness and encourage entrepreneurship.</td>
</tr>
<tr>
<td>Connecting Europe Facility (CEF)</td>
<td>€1.9bn</td>
<td>€144.44m</td>
<td>Investing in trans-European networks and infrastructures in the sectors of transport, telecommunications and energy.</td>
</tr>
</tbody>
</table>

¹⁹ Further information on EU funding initiatives that are important to councils is available from LGA publication “2014-20: A guide to EU funding” (LGA, 2015)
<table>
<thead>
<tr>
<th>Programme Description</th>
<th>€ Amount</th>
<th>€ Mill</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer programme 2014-20</td>
<td>€189mill</td>
<td>€3.02m</td>
<td>The consumer programme helps citizens to fully enjoy their consumer rights and to actively participate in the Single Market. The programme focuses on four areas: monitoring and enforcing product safety; consumer information and education; consumer rights and effective redress; and strengthening cross-border enforcement.</td>
</tr>
<tr>
<td>Creative Europe</td>
<td>€1.5bn</td>
<td>€32.5m</td>
<td>Supports the cultural and creative sectors, enabling them to reach new audiences, develop skills for the digital age and safeguard cultural and linguistic diversity.</td>
</tr>
<tr>
<td>Education, Training, Youth and Sport (Erasmus+)</td>
<td>€14.77bn</td>
<td>€57.6m</td>
<td>Erasmus+ aims at boosting skills and employability. The programme will increase the quality and relevance of Europe’s education systems by providing funding for the professional development of education and training staff, as well as youth workers, and for cooperation between universities, colleges, schools, enterprises and NGOs.</td>
</tr>
<tr>
<td>Employment and Social Innovation Programme (EaSI)</td>
<td>€919mill</td>
<td>€10.39m</td>
<td>EaSI is a European-level financing instrument that supports employment, social policy and labour mobility in line with the objectives of Europe 2020 (the EU’s growth strategy). It aims to promote a high level of quality and sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions.</td>
</tr>
<tr>
<td>Environment and climate action (LIFE)</td>
<td>€3.4bn</td>
<td>€52m</td>
<td>The ‘Climate Action’ strand covers climate change mitigation; climate change adaptation; and climate governance and information.</td>
</tr>
</tbody>
</table>
**Europe for Citizens**  
€185mill  
€21.7mill  
Funds promotion of European remembrance, democratic engagement and civic participation.

**European Fund for Strategic Investments (EFSI)**  
Overall budget €33.9bn from EU/ European Investment Bank; €315bn including investor funding  
€7.9bn  
Provides loans or loan guarantees (not grants) for projects in areas such as: infrastructure, education, research, innovation, renewable energy and energy efficiency.

**European Local Energy Assistance (ELENA)**  
€1.6bn including investment  
Not available  
Supports councils in preparing and implementing sustainable energy plans for their area.

**European Union Programme for Employment and Social Innovation**  
€919,47mill  
€10.3mill  
The Employment and Social Innovation Programme supports employment and social policies across the EU. The programme supports member states’ efforts in the design and implementation of employment and social reforms at European, national, as well as regional and local levels by means of policy coordination and the identification, analysis and sharing of best practices.
<table>
<thead>
<tr>
<th>Horizon 2020 Funding Research and Innovation</th>
<th>€79.4bn</th>
<th>€4.98bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horizon 2020 is the EU Framework Programme for Research and Innovation for 2014-20. It helps bodies such as universities and research laboratories to leverage additional research, development and innovation funding and contribute to attaining research and development targets.</td>
<td></td>
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<tr>
<td>This funding usually takes the form of grants, to part-finance a broad range of research projects.</td>
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<tr>
<td>Councils are unlikely to be lead research organisations, but can help with testing activities and citizen feedback on issues such as ICT, environmental projects and new transport technologies. Councils have therefore been part of such EU-funded research projects in the past.</td>
<td></td>
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</tr>
<tr>
<td>UK organisations including Universities have access to up to €80bn between 2014-20 Funding for Research and Innovation. Over the period 2007 - 13, the UK received €8.8 billion in direct EU funding for research, development and innovation activities</td>
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<tr>
<td>NOTE: The Treasury will underwrite all successful 2020 bids for Horizon 2020 that are approved by the Commission, even when specific projects continue beyond the departure from the EU.</td>
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<tr>
<td>The long-term future of UK participation in European science programmes will be decided as part of the UK’s exit negotiations.</td>
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</tbody>
</table>
### Natura 2000
- **Share of €3.4bn LIFE budget**
- **Funds Special Areas of Conservation (SAC) to protect the EU’s most valuable and threatened species and habitats.**

### Rights, Equality and Citizenship Programme (REC)
- **€439mill**
- **€12.18mill**
- **Funds the promotion and protection of human rights in the EU.**

### European Maritime Affairs and Fisheries Fund (EMFF)
- **€7.4bn**
- **€7.5mill**
- **The European Maritime and Fisheries Fund supports the implementation of the CFP with the necessary financial resources. The fund focuses on funding projects that promote a sustainable future for the European fishing industry and coastal communities, with particular focus on the rebuilding of fish stocks, reducing the impact of fisheries on the marine environment and the progressive elimination of wasteful discarding practices.**

### European Investment Bank (EIB)
- **In 2015 the EIB lent €84.5bn**
- **EIB investments in the UK economy came to €7.8bn in 2015, the Bank’s largest ever engagement in the country.**
- **Between 2011 and 2015, the Bank invested over €29bn in the British economy.**
- **EIB provides financial instruments, such as loan and guarantee funds, for large scale investments. The UK Government currently has a 16 per cent shareholding in the Bank.**
<table>
<thead>
<tr>
<th>Joint European Resources for Micro-to-Medium Enterprises (JEREMIE)</th>
<th>An initiative developed together with the European Investment Fund. It promotes the use of financial engineering instruments to improve access to finance for SMEs via Structural Funds interventions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint European Support for Sustainable Investment in City Areas (JESSICA)</td>
<td>An initiative developed in cooperation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB). It supports sustainable urban development and regeneration through financial engineering mechanisms.</td>
</tr>
</tbody>
</table>
| European Agricultural Guarantee Fund (EAGF) / Common Agricultural Policy (CAP) | CAP funding is worth approximately €28 bn to the UK farming sector and rural areas in the 2014-2020 period. | CAP is a system of agricultural subsidies and programmes covering farming, environmental measures and rural development. CAP direct payments to farmers are known as ‘Pillar 1’ and are administered in England via DEFRA’s ‘Basic Payment Scheme’ which accounts for around 80% of total payments.

In the UK, the Government moves some Pillar 1 funds into Pillar 2, via a budgetary process known as modulation. This helps to ensure sufficient funds are available for agri-environment measures, increasing the productivity of farming and forestry, and growing the rural economy (Pillar 2 of the CAP).

Treasury has provided a guarantee to the agricultural sector that it will receive the same level of funding that it would have received under Pillar 1 of CAP until the end of the Multiannual Financial Framework in 2020. (HM Government, 2016)

In the June 2017 Queen's Speech, the Government announced an 'Agriculture Bill'. The main element of the Bill are “Measures to ensure that after we leave the EU, and therefore the Common Agricultural Policy, we have an effective system in place to support UK farmers and protect our natural environment.” (HM Government(h), 2017) |
Across Europe, the total budget for these programmes is approximately €9.2 billion, covering 107 programmes. The UK does not participate in all of these programmes, but there are 16 programmes that cover all or parts of the UK. While it is not possible to determine the total amount of funding from these programmes for the UK over the 2014-20 period, EU expenditure and revenue data reveals that €78 million was spent on ‘European territorial cooperation’ in the UK in 2015. (Parliament UK, 2016).

European Territorial Cooperation programmes, which are sometimes known as Interreg programmes, are designed to promote cooperation between member states on shared challenges and opportunities to support the effective functioning of the single market. INTERREG programmes involving the UK include the €257 million Two Seas Programme, covering England, France, the Netherlands and Belgium (Flanders) and the €396 million North West Europe Programme covering six other Member States and Switzerland. Nine of these involve England, and these are overseen by the Department for Communities and Local Government (DCLG).