CORE CITIES AND SCOTTISH CITIES

DEPLOYING EU SUCCESSOR FUNDING TO SUPPORT OUR CITIES AND CITY REGIONS

CORE CITIES REPORT

FINAL REPORT TO THE CORE CITIES GROUP_MAY 2019

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Executive Summary

“The Core Cities and City Regions have already successfully invested in each of the foundations of productivity, often using Structural Funds and working closely with Government and other public and private sector partners.”

Introduction
ekosgen was commissioned by the Core Cities Group and Scottish Cities to review how the Core Cities have used Structural Funds to support economic development, in order to inform the Core Cities' approach to the development the UK Shared Prosperity Fund (UK SPF), the successor fund to the Structural Funds. This executive summary provides a brief overview of the findings and sets out the recommendations for the Core Cities. Although governance and financial arrangements are different in the devolved administrations (and a separate report has been prepared for the Scottish Cities), the principles and recommendations set out here could be adopted in the Devolved Nations (where appropriate to their specific circumstances), to ensure that the Shared Prosperity Fund delivers the same overall outcomes across the UK.

Context
The Government has stated that the Shared Prosperity Fund will tackle inequalities between communities and raise productivity in those parts of the country whose economies are furthest behind, by strengthening the five foundations of productivity: ideas, people, infrastructure, business environment and place. The SPF will be a core mechanism through which the national and Local Industrial Strategies will be delivered.

The national Industrial Strategy is focussed on growth, with less emphasis placed on creating resilient local economies which can recover from external economic shocks. In England, Local Industrial Strategies are currently in development, and the Core City areas are placing considerable emphasis on inclusive growth. Nearly 40% of the productivity gap between the Core Cities and national average output per worker is due to factors linked to deprivation – lower rates of employment, higher rates of poor health, low skills levels and a lack of engagement in education and training – so investing to strengthen resilience is an important priority for the Core Cities.

No formal consultation has yet been undertaken by the Government on the SPF. However, the Government has made clear that:

⟶ UKSPF is a successor to Structural Funds, not a continuation.

⟶ There is no commitment to rolling forward current Structural Fund allocations either by programme or area, or to taking forward the current ERDF / ESF financial breakdowns between themes / priorities and activities.

⟶ SPF will be shaped by UK policy, notably the Industrial Strategy, not EU Structural Fund heritage.

⟶ It is not clear which Departmental budgets the UKSPF will be funded from, and there is a need to make the case for financial investment in the context of the forthcoming Spending Review.

The Core Cities have an important role to play in co-designing the SPF, and sharing their experiences and expertise with Government as it develops the SPF model.

Structural Fund Allocations

The Structural Fund programmes have provided significant additional funding to support regional economic development though the last three programme periods. The 2007-2013 and 2014-2020 programmes were much less geographically targeted than the 2000-2006 period; by 2014-2020 every area of the UK received some form of allocation and this was not required to be spent within eligible 'zones' but could be used across the whole region

2000-2020 Financial Allocations €m

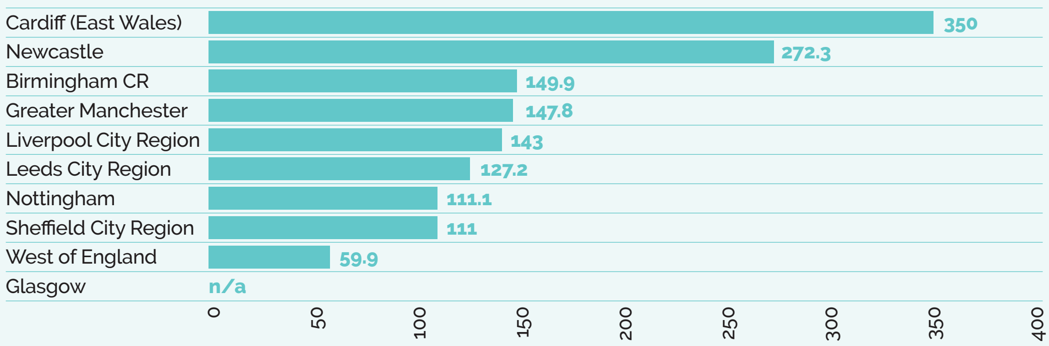
	2000-2006		2007-2013		2014-2020	
	Per Annum	Total	Per Annum	Total	Per Annum	Total
ERDF	1,216	8,512	774	5,416	831	5,817
ESF	1,050	7,350	639	4,475	711	4,978
Total UK	2,265	15,853	1,413	9,891	1,542	10,795

Source: Inforegio Regional Policy archive, European Commission Operational Programmes 2007-2013, BIS Letter re LEP ERDF and ESF allocations

There are considerable variations in the allocation of euros per head of population across the UK, in part due to the designation of regions as less developed, transition and more developed. The less developed regions are those with GDP per capita levels of less than 75% of the EU average, and receive a much higher level of funding. There is also considerable variation in the allocations to Core City Regions, with three below the English average of €115 per capita – Sheffield City Region, D2N2, which includes Nottingham, and the West of England, which includes Bristol.

The allocations for Liverpool and Sheffield City Regions were the subject of a Judicial Review. Both were Objective 1 regions in 2000-2006 (with a then per capita allocation of circa 1,000 euros), and consider that the system used to allocate Structural Funds across the UK for the 2014-2020 programme resulted in an unfairly low allocation, which would not be an appropriate starting point for discussions regarding the allocation of Shared Prosperity Funds.

Structural Fund Allocations to Core City Regions, 2014–2020 € per capita



Source: Operational Programmes, BIS Letter re LEP ERDF and ESF allocations, ONS Population Estimates.
Note: Data not available for Glasgow. Birmingham CR includes Gtr Birmingham and Solihull, Black Country and Coventry & Warwickshire LEP areas. Newcastle and Nottingham data is for full LEP areas (North East and D2N2), allocations data not available at Core City Region geography.

In total, the Core City regions, including Belfast, account for around one-third of Structural Fund allocations in the 2014-2020 period[1].

How the Core City Regions have Successfully Invested Structural Funds
The Core Cities and City Regions have already successfully invested in each of the foundations of productivity, often using Structural Funds and working closely with Government and other public and private sector partners. These previous investments represent a strong asset base for the Core Cities, and provide a platform for further investment through the Shared Prosperity Fund.

Around one-quarter of the current allocation of Structural Funds is being invested in '**ideas**'. The Industrial Strategy sees a key role for universities as suppliers of highly skilled graduates, drivers of innovation and as economic entities in their own right. The Core Cities are home to twelve of the Russell Group universities and the relationship between the city and the Higher Education Institution (HEI) is crucial to the success of each. Structural Fund investment in ideas and innovation has included research facilities, incubation centres and support to commercialise R&D. Long-term investment has been made in world-class facilities such as the National Graphene Institute in Manchester, Newcastle Helix and the Advanced Manufacturing Park in Sheffield, all of which have helped to stimulate private sector investment. Accompanying revenue support to engage SMEs in innovation and develop a culture of knowledge transfer from the knowledge base to the business base is also vital.

Around half of all Structural Fund investment has been in '**people**' through a wide range of employability support, funded through the European Social Fund (ESF). The key investment themes include tackling poverty and promoting social inclusion; supporting employability and entry to work; supporting in-work skills development; and higher level skills support. Many thousands of individuals across the Core City

1 As there are no geographical allocations to Glasgow or Belfast city regions, it has been assumed that both areas benefit from their 'fair share' of the Rest of Scotland and Northern Ireland allocations, i.e. they receive the average amount of funding per head of population as is the case across the wider geography.

regions have been supported, with resources targeted on those most distant from the labour market. Efforts have been made to link skills development to wider regeneration efforts, and to deliver neighbourhood-focussed programmes of support.

The European Regional Development Fund has been a major source of **infrastructure** investment, although more in the initial programme periods, before eligibility issues restricted investment opportunities. Infrastructure investment has focused on major development locations with economic potential, often linked to railway stations, airports and waterfront areas. Key themes include transport infrastructure investment, with tramlines, trunk roads and airport development all supported, urban regeneration, including the transformation of the Kings Dock Waterfront in Liverpool, and investment in digital connectivity and smart city projects, with many areas benefiting from support to roll-out broadband provision to those areas not reached by the market.

Nearly half of all ERDF investment under the current programme is supporting **business** growth. The European Regional Development Fund has been a long term investor in business support and in supporting new start, sector growth and access to finance. The proportion of funds provided to business revenue projects has increased as eligibility rules have restricted capital investment. There are three main areas of business investment. Considerable investment has been made in the provision of incubators and business premises, sometimes focussed on specific sectors, such as the BioCity facility in Nottingham and the Sharp Project (digital production and media) in Manchester. Revenue funding has been used to deliver business support programmes, such as the Ad:Venture high growth business support programme in Leeds city region. Many areas have established financial instruments to provide businesses with access to finance to support growth. These revolving loans funds generate returns which can be re-invested in additional businesses.

Analysis of the 2007-2013 programmes previously undertaken for the Core Cities showed that Structural Funds had created more than 63,000 jobs in the Core Cities and their surrounding city regions / regions, and safeguarded at least 16,800 jobs.

A review of the ESIF Strategies for the England LEP areas for the 2014-2020 programme [2] suggests that the English Core Cities and city regions will:

- Support over 59,000 businesses, over 40% of the c. 140,000 to be supported through England's ERDF programme
- Account for around 40% of the 56,000 jobs to be created in supported businesses
- Reduce greenhouse gas emissions by over 260,000 tonnes
- Support over 400,000 individual beneficiaries with employability support through ESF

The Core Cities and City Regions have put in place robust plans and delivery capacity over the past three years and now have established appraisal, assurance and decision-making procedures in place, as well as experienced and senior staff in post

2 Where Core City level data is not available, a proportion of the total England target output has been applied

to manage and administer major funding streams. They run major employment and training programmes, lead business growth hubs, and the majority have developed investment funds to support economic growth. UKSPF investment in the Core City Regions, provided that it is accompanied by greater degree of devolution in terms of strategy setting and decision-making, will allow Government to build on recent investments in the factors of productivity, rebalance the economy and close the productivity gap in the major regional economies.

Limitations of the Structural Fund Approach
Although the Core Cities have achieved many successes in their use of Structural Funds, the approach adopted to managing, overseeing and using the funding has many limitations:

- Eligibility rules restrict what can be funded, with some important elements of economic development no longer able to be supported e.g. new commercial premises, transport infrastructure. This can limit the benefits from other Structural Fund investment (e.g. in business growth and employment creation on strategic sites)
- How the money can be used is overly pre-determined and not at local level. For example most of the infrastructure investment in the current programme is focussed on low carbon or flood alleviation measures and there is less local flexibility to determine how capital resource is used
- The system does not encourage innovation, with high levels of risk aversion amongst programme managers, and a high degree of risk for project sponsors if project delivery does not proceed as planned. This is particularly challenging for projects working with the most disadvantaged groups and those with complex needs e.g. mental ill-health, socially and economic excluded groups, people with protected characteristics
- Time-consuming and over-engineered processes which divert too much time into project management and administration which add little value. The need to provide match-funding and secure Managing Authority approval for projects and changes to projects also introduce complexity and delay for project sponsors.

These factors have acted to limit the achievements of the Structural Funds – preventing some organisations from applying for funding, making others cautious of doing so, causing projects to be designed to meet the funding criteria rather than maximising benefits and meaning too much time and effort goes into back office activities rather than those which will have an impact on the economy. The introduction of the SPF provides an opportunity to do things differently.

The Potential Contribution of the Core City Regions to Rebalancing the Economy
The UK is one of the most unequal of all the developed economies[3]. Productivity levels per worker in London and the south east are much higher than the national average, whilst in a number of the large regions they are between 10% and 20% below the average. This disparity has a major impact on wages, household incomes and shared prosperity.

3 Perceptions of Regional Inequality and the Geography of Discontent: Insights from the UK, Prof Philip McCann, January 2019

If productivity levels in the Core City regions matched the national average, an additional £70bn would be generated for the UK economy, and this could rise to £100bn if the Core Cities could match the productivity levels within international comparator cities. The Core City regions have seen significant growth in the working age population over the past ten years, and this is expected to continue to outpace national growth in future years. Although there has been significant employment growth since 2013, there has been little change in relative productivity performance, with Bristol the only Core City area to have productivity levels above the national average (although this disguises significant variations within the Bristol city region area).

Inclusiveness remains a challenge, with above average levels of unemployment, relatively low wages, too many residents with no or low level skills and high levels of deprivation. Taken together, these factors account for nearly 40% of the productivity gap between the Core City regions and the UK average. Targeting significant Shared Prosperity Fund investment on Core City Regions will support the UK's Industrial Strategy because:

1. There is a need to invest in the regions outside of London and the South East in order to make full use of the country's economic potential, increase UK productivity and rebalance the economy.

2. Core Cities and Core City Regions have successfully grown their populations, and current forecasts indicate that the majority will see an increase in their working age population, in contrast to a decline nationally, with the potential to provide the skilled workforce needed to support competitive sectors.

3. There has been considerable success in terms of employment growth over the past ten years in the Core City Regions, outperforming the national economy on a number of key indicators, with considerable successes in some of the key sectors driving national economic growth.

4. The City Regions have already successfully invested in the five foundations of productivity, supporting world class research and incubation facilities, developing new economic infrastructure and creating business environments to stimulate new investment and sector growth.

5. The City Regions have been leading the way in the UK in delivering initiatives to support inclusive growth, and have used ESF and other training funds to provide targeted support to those most distant from the labour market.

6. Local Authorities, working closely with Combined Authorities and Local Enterprise Partnerships, have put in place enhanced governance and delivery capacity to take forward Industrial Strategy priorities and skills and inclusive growth plans, based on need and opportunity.

Developing a Shared Prosperity Fund which works for the Core Cities

The UKSPF will be resourced within the context of the forthcoming spending review and while the starting point in discussions has been providing funding at a level which matches current Structural Fund expenditure, currently levels of funding are not an appropriate benchmark for all the Core Cities, with Liverpool and Sheffield having received unfairly low allocations under the 2014-2020 programme. The new fund will have a specific UK remit and financing should be made available in the light of its role in terms of UK policy objectives.

Taking into account the ambition to use the SPF to deliver Local Industrial Strategy priorities, and the benefits of providing a single pot which encompasses the multiple funding sources currently used to match Structural Fund investment, there is merit in significantly increasing the value of the SPF, compared to the current Structural Fund programmes.

Shared Prosperity Fund: Financial Scenarios Annual Allocations

774	SF Value Maintained	2021-	£1,176m
SPF	SF Adjusted (to maintain real value of 2014-2020 SF allocation)	2021-	£1,354m
SPF	SF Value Maintained + SFUK Match	2021-	£2,245m
SPF Max	LIS Enhanced	2021-	£4,000m

Source: Operational Programmes, ekosgen calculations

The means by which the Shared Prosperity Fund will be managed and delivered is as important as the finance available. There is an opportunity to move away from the Structural Fund programme approach and its limitations, to more effective arrangements, which take account of how partnerships and policy have changed over the past four years. The proposed new arrangements need to be viewed as a package of improvements, rather than a wish list from which Government can cherry pick. These new arrangements are based on a high degree of trust and an understanding that many decisions are best made locally.

Approach	Commentary
National Framework	UKSPF should set a national framework with higher level strategic direction, objectives and priorities. It should not set financial allocations or targets which are handed down sub-regionally based on financial allocations.
Outcome Based	Moving away from activities and outputs as key measures to the more relevant substantive outcomes of investment.
Local Strategies	UKSPF should be used to boost and extend local strategies, notably Local Industrial Strategies, City Deals and Combined Authority strategies.
7 year Fund, with no / limited competitive bidding	As the most important financial source for addressing the UK's productivity and inclusive growth challenges, UKSPF needs to move from short term funding to a long term approach, with seven years as the minimum funding period. Allocations based on objectively assessed criteria, rather than *(Cont)*

	competitive bidding, should be the main means of distributing funding.
Flexible, Single Pot	Monies should be provided with as few restrictions as possible, no restrictions on capital / revenue, or prescriptive allocations by theme, and reduced restrictions on eligible activities e.g. land remediation.
Maximum devolution of management and delivery	Government's default position should be to devolve management and delivery to sub-regions and Core City Regions with sufficient capacity, with co-delivery used for other areas as a transition to introducing full local delivery.
Simplified appraisals	Government and partners should agree a simplified appraisal and decision making system, proportionate to the funding and activities, reducing the over engineering and bureaucracy which has crept into the process.

Opportunities and Risks

The introduction of the SPF provides an opportunity to establish a substantive long term fund to deliver sub-regional strategies for economic growth. The introduction of a transparent allocation system raises the prospect of a greater proportion of national resource secured for Core Cities / city regions. With relatively few details yet released by the Government, there is an opportunity to influence the Fund's development and ensure that both priority setting and decision-making are devolved to the Core Cities / city regions, to better align resource to local needs. The new approach also provides an opportunity to move from an output / activity approach to an outcome system, with stronger links to productivity factors and inclusive growth.

However, the introduction of the SPF also brings a number of risks. The first is that sticking with the status quo on resource levels and allocations is the easy option for Government – in any attempt to change things, the losers are likely to shout more loudly than the winners, so there is a temptation to change little. There is also a risk that the current management arrangements are continued for SPF, or are re-invented without significant improvements being made. In making the case for increased devolution, it is important that the Core Cities' track record in developing and delivering economic development programmes is fully understood by Government, so that they appreciate the skills and expertise which are embedded in the Core City regions. The introduction of a transparent allocation mechanism also brings a degree of risk. The indicators used and the weightings applied to them will have different implications for each Core City region.

Recommendations:

The major recommendations emerging from this work are:

1. SPF should use a transparent, needs-based allocation system, linked to the objectives of the Industrial Strategy and reducing economic inequalities between communities. While challenging, any new system should seek to take account of both need and opportunity.

2. The Core Cities should make the case that the UKSPF budget should not be determined by previous levels of Structural Funds and should be significantly increased. As a minimum, UKSPF should be funded at a level of circa £4bn per annum for seven years, reflecting its importance in delivering UK policy objectives.

3. The Core Cities should work to secure Ministerial commitment to moving away from short-term and siloed funding pots linked to the specific agendas of the Departments from which they are originally made available. A more holistic approach is needed, which requires a significant degree of trust in local decision- making.

4. There is a compelling case, based on Core Cities' track record of ERDF and ESF investment, agreed local strategies, capacity and ambition to allocate a large proportion of the UKSPF to the UK's major city regions.

5. The Core Cities must be closely involved in the design of the UKSPF and be involved in all discussions regarding its scale, focus and management and delivery processes. The Government must work with the Core Cities to co-design the SPF, to ensure their expertise in raising productivity, supporting inclusive growth and tackling inequalities between communities informs the Fund.

6. The constant on-off and changing of funding streams and programmes undermines efforts to strengthen local economies. Despite the lack of certainty over the SPF, the Core Cities should begin to develop a portfolio of projects to deliver Local Industrial Strategy priorities, building on investment already made through the Structural Funds.

1
Introduction

“The objectives set by the Government for the Shared Prosperity Fund (SPF) – tackling inequalities between communities, and raising productivity in those parts of the country whose economies are furthest behind – are ones which the Core Cities wholeheartedly support.”

This report to the Core Cities has been produced by ekosgen. The Core Cities, in partnership with the Scottish Cities, commissioned ekosgen to explore how Structural Funds had been used to support economic development across the cities and city regions, and identify common principles to collectively shape future EU successor funding programmes, based on Core Cities and Scottish Cities views.

The report draws on detailed analysis of project and programme data from across the UK, previous Operational Programmes and evaluations, as well as consultations with those most closely involved in delivering Structural Fund activity within each of the Core City Regions. It will inform the Core Cities' submission to the UK Government's Shared Prosperity Fund consultation and future discussions with the UK Governments. Although governance and financial arrangements are currently different for European funds in Scotland, Wales and Northern Ireland given Devolved Administration arrangements (and a separate report has been prepared for the Scottish Cities), the principles and recommendations set out here could be adopted in the Devolved Nations (where appropriate to their specific circumstances), to ensure that the Shared Prosperity Fund delivers the same overall outcomes across the UK.

The UK Shared Prosperity Fund

The objectives set by the Government for the Shared Prosperity Fund (SPF) – tackling inequalities between communities, and raising productivity in those parts of the country whose economies are furthest behind – are ones which the Core Cities wholeheartedly support. Whilst the national economy has grown in recent years, with employment levels reaching record highs, the benefits of this success have been unevenly distributed.

The Ministerial Statement of 24th July 2018 by James Brokenshire, Secretary of State for Housing, Communities and Local Government, set out the key aspects of the Shared Prosperity Fund.

- **The objective of the UKSPF:** The UKSPF will tackle inequalities between communities by raising productivity, especially in those parts of our country whose economies are furthest behind. The UKSPF will achieve this objective by strengthening the foundations of productivity as set out in our modern Industrial Strategy to support people to benefit from economic prosperity.

- **A simplified, integrated fund:** Simplified administration for the fund will ensure that investments are targeted effectively to align with the challenges faced by places across the country.

- **UKSPF in the devolved nations:** The UKSPF will operate across the UK. The Government will of course respect the devolution settlements in Scotland, Wales and Northern Ireland and will engage the devolved administrations to ensure the fund works for places across the UK.

- **A national framework in England that works for local priorities:** Local areas in England are being asked to prepare Local Industrial Strategies to prioritise long-term opportunities and challenges to increasing local productivity, which will help to maximise the long-term impact of the UKSPF.

The statement strongly links the Shared Prosperity Fund to the UK Industrial Strategy, tackling inequalities between communities by raising productivity, and with an implied geographical focus on those economies which are furthest behind.

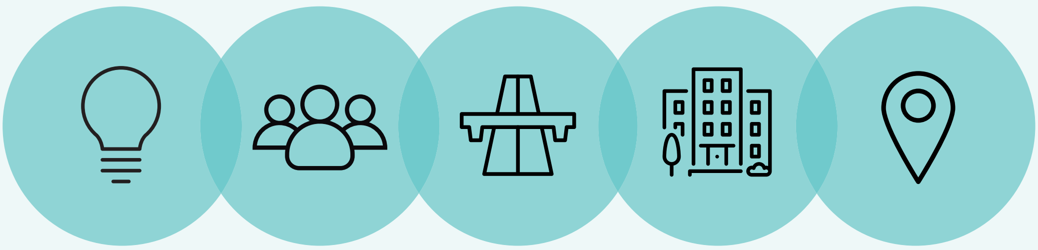
The Industrial Strategy makes clear that while UK has significant economic strengths on which the country can build, more work is needed to increase national productivity and make the most of the untapped potential right across the country. The Strategy is focussed on generating growth and ensuring that all parts of the country benefit from growth. Whilst this is welcome, there is less focus on building resilience in local economies, and creating the conditions in which they can quickly recover from external economic shocks.

Recent research undertaken for the Core Cities[4] highlights the extent to which major economic shocks have prevented the Core Cities from achieving their full growth potential, particularly when compared to the 1980s, when many had productivity levels higher than the national and London averages.

Building in resilience to future economic shocks requires structural issues in the labour market, which result in low skills levels and deprivation, to be tackled. Investing more in infrastructure, giving cities more freedom to make decisions, and enhancing the connections between Cities and the surrounding areas would all help to secure major economic gains.

The Industrial Strategy highlights five foundations of productivity, which will be the focus of efforts to boost productivity and earning power across the country:

Our five foundations align to our vision for a transformed economy



Ideas	People	Infrastructure	Business Environment	Places
The world's most Innovative Economy	Good jobs and greater earning power for all	A major upgrade to the UK's infrastructure	The best place to start and grow a business	Prosperous communities across the UK

4 Powering up the Core City Economies: Some Policy Issues, Cambridge Econometrics, forthcoming

The Core Cities and Core City Regions have already successfully invested in each of the foundations, using Structural Funds and other funding streams, working closely with Government over many years. With a strong asset base in each city, this provides a platform for further investment through the Shared Prosperity Fund.

The UKSPF will focus on strengthening the foundations of productivity to ensure that people benefit from economic prosperity, i.e. it will both support economic growth and ensure that that growth is inclusive. There are, however, different interpretations of inclusive growth, with different levels of emphasis placed on the 'growth' and 'inclusion' elements. The RSA Inclusive Growth Commission[5] defined inclusive growth as "enabling as many people as possible to contribute to and benefit from growth" and sees economic inclusion and economic growth as two related priorities. The OECD defines inclusive growth as "economic growth that is distributed fairly across society and creates opportunities for all"[6]. The Core City Regions are already developing plans to strengthen the links between inclusive growth and the Industrial Strategy, including through the Local Industrial Strategies being developed in each city region.

Context
There is no commitment by the UK Government to continuing with the EU Structural Fund approach. It has been made clear that:

- UKSPF is a successor to Structural Funds, not a continuation.
- There is no commitment to rolling forward current Structural Fund allocations either by programme or area, or to taking forward the current ERDF / ESF financial breakdowns between themes / priorities and activities.
- SPF will be shaped by UK policy, notably the Industrial Strategy, not EU Structural Fund heritage.
- It is not clear which Departmental budgets the UKSPF will be funded from, and there is a need to make the case for financial investment in the context of the forthcoming Spending Review.

The emphasis on the UK Industrial Strategy essentially makes the EU approach of Convergence and the categorisation of regions into Less Developed, Transition and More Developed Regions, applied across the 27 Member States, redundant.

While there is no commitment to maintaining the split between the two major EU Structural Funds, it is important to recognise the differing but complementary roles that each has played. The European Social Fund (ESF) has supported major training programmes across the UK for the past 20 years. This includes a considerable number of initiatives supporting those distant from the labour market. As such, ESF rather than the European Regional Development Fund (ERDF), has made the greater

5 Making our Economy Work for Everybody, Inclusive Growth Commission, RSA, 2017

6 OECD (2018), "The OECD Inclusive Growth Framework", in *Case Studies on Leaving No One Behind: A companion volume to the Development Co-operation Report 2018*, OECD Publishing, Paris.

contribution to addressing the challenge of inclusive growth, and considerably increases the funding available for training activity at the local level.

One aspect of the EU approach which remains attractive to many stakeholders is the practice of providing areas changing from a regional designation which attracts a high financial allocation to one which attracts a lower level of funding, with a transitional payment arrangement to avoid a cliff edge in funding for key projects.

There is no commitment to adopting this approach in the move from EU Structural Funds to the Shared Prosperity Fund, although a considerable number of areas have made the case that there should be no reduction in the amount of funding available through the SPF.

2

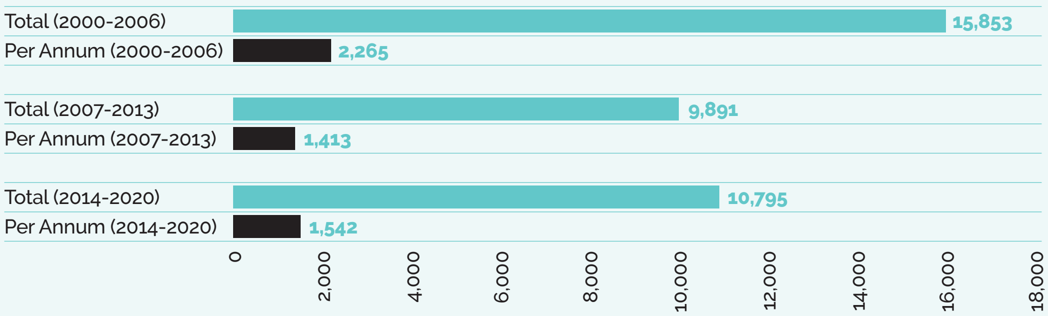
UK Structural Funds Financial Allocations

"By far the largest amount of EU regional policy funding is dedicated to the regions designated as less developed."

Financial Allocations 2000 to 2020

The Structural Fund programmes have provided significant additional funding to support regional economic development though the last three programme periods: 2000-06, 2007-2013 and 2014-2020. In the first period, six areas including the core city areas of South Yorkshire and Merseyside received the highest level of funding (Objective 1) while other areas were eligible for lower levels of support (Objective 2), targeted at specific parts of each region.

UK Structural Fund Allocations €m



Source: Inforegio Regional Policy archive, European Commission Operational Programmes 2007-2013, BIS Letter re LEP ERDF and ESF allocations.
Note: Includes ERDF and ESF through Objective 1, 2 and 3 Programmes (2000-06), Convergence and Regional Competitiveness Programmes (2007-2013), European Structural and Investment Funds programme (2014-2020)

Although the value of the EU budget allocated to addressing economic and social disparities increased by nearly 80% between 2000-2006 and 2007-2013, the total value of Structural Funds allocated to the UK reduced significantly. The expansion of the EU and entry of a number of Eastern European nations meant that a smaller proportion of total funding was allocated to the UK, and fewer UK regions qualified for the highest level of funding, with both South Yorkshire and Merseyside losing their Objective 1 status (although eligible for 'phasing in' support). At the same time, the 2007-2013 and 2014-2020 programmes were much less geographically targeted than the 2000-2006 period; by 2014-2020 every area of the UK received some form of allocation and this was not required to be spent within eligible 'zones' but could be used across the whole region.

While there have been a number of smaller programmes supported through the Structural Funds (Community Initiatives and Territorial Cooperation programmes), and UK organisations have been able to bid for various EU-funded research and exchange programmes to encourage international cooperation and collaboration, mainstream ERDF and ESF funds allocated based on regional need have been the major sources of EU financial support for economic development.

While ERDF sometimes has a higher profile, ESF has provided skills and training support to millions of beneficiaries over the past 20 years, and each year ESF funds a broad range of training initiatives, including a considerable number targeted at those most distant from the labour market.

2000-2020 Financial Allocations €m

	2000-2006		2007-2013		2014-2020	
	Per Annum	Total	Per Annum	Total	Per Annum	Total
ERDF	1,216	8,512	774	5,416	831	5,817
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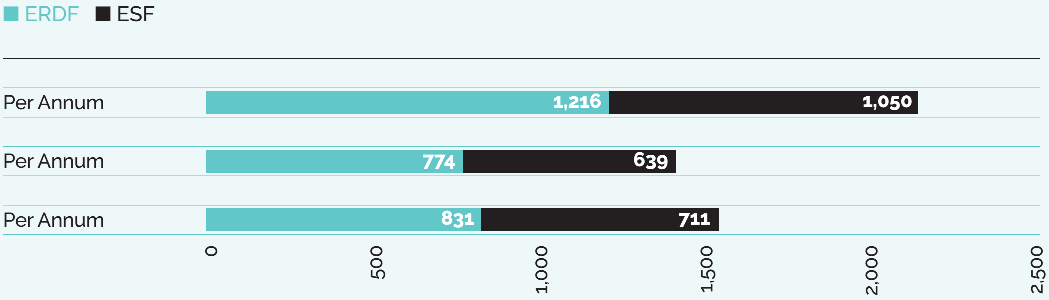
Source: Inforegio Regional Policy archive, European Commission Operational Programmes 2007-2013, BIS Letter re LEP ERDF and ESF allocations

Annual ERDF and ESF Allocations €m



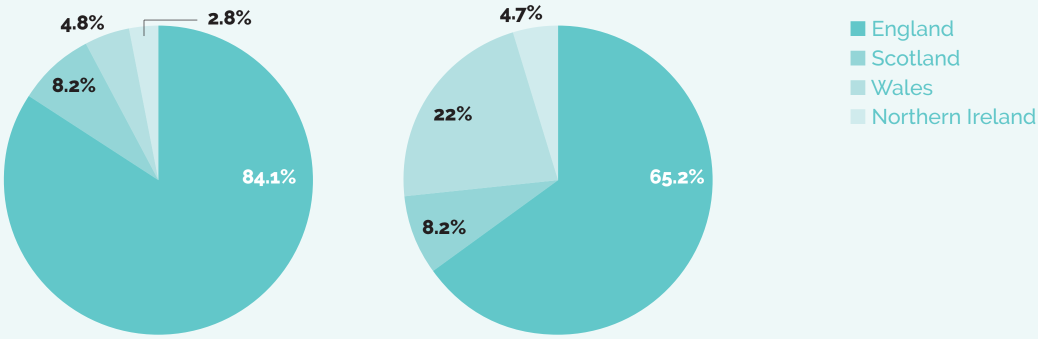
Source: Inforegio Regional Policy archive, European Commission Operational Programmes 2007-2013, BIS Letter re LEP ERDF and ESF allocations.
Note: Includes ERDF and ESF through Objective 1, 2 and 3 Programmes (2000-06), Convergence and Regional Competitiveness Programmes (2007-2013), European Structural and Investment Funds programme (2014-2020). Does not include EAGGF, FIFG, EAFRD

The value of ERDF and ESF Structural Funds doubles when public sector matched funding is taken into account.

2014-2020 Financial Allocations

In the current UK context, Wales and Northern Ireland receive significant levels of financial support from the current Structural Funds programme. In the case of Wales, the designation of West Wales and the Valleys as a Less Developed Region has led to an exceptionally large allocation due to its low level of GDP relative to the EU average, resulting in Wales receiving 22.0% of UK Structural Funds, with a population of 4.8% of the UK total.

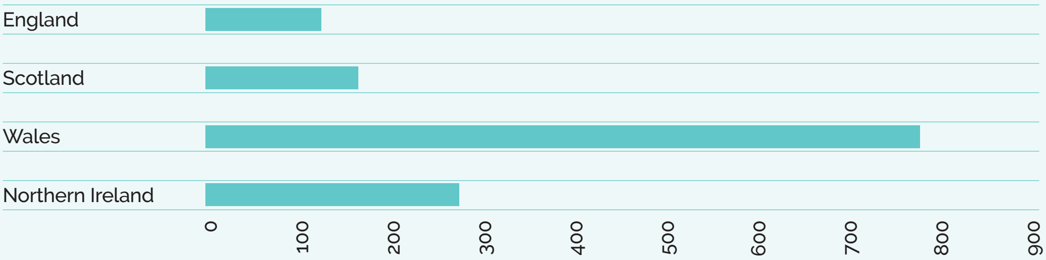
Percentage share of UK population **Percentage share of UK population Structural Fund allocation**



Source: UK ESIF Operational Programmes

This results in a very high allocation per capita in Wales compared to the rest of the UK:

UK Structural Fund Allocations 2014-2020 € per head



Source: UK ESIF Operational Programmes, ONS Population Estimates

2014-2020 Financial Allocations €m

	EU Structural Fund Allocation (€m)	**Euros per capita**	**% of UK population**	**% of SF allocation**
England	7,114.8	128.5	84.1%	65.2%
Scotland	922.4	170.1	8.5%	8.2%
Wales[1]	2,412.5	772.0	4.8%	22.0%
Northern Ireland[1]	513.4	274.4	2.8%	4.7%

Source: Operational Programmes.
1 Does not include PEACE IV programme in Northern Ireland (€229m across NI and Border region of Ireland) or Wales-Ireland cross-border programme

In addition to the two Less Developed Regions of Cornwall and West Wales, which receive over €1,000 per capita of ERDF and ESF support, there are five other areas where the current allocations per capita are high i.e. above €250 per capita.

2014-2020 Major Allocations Financial Allocations €m

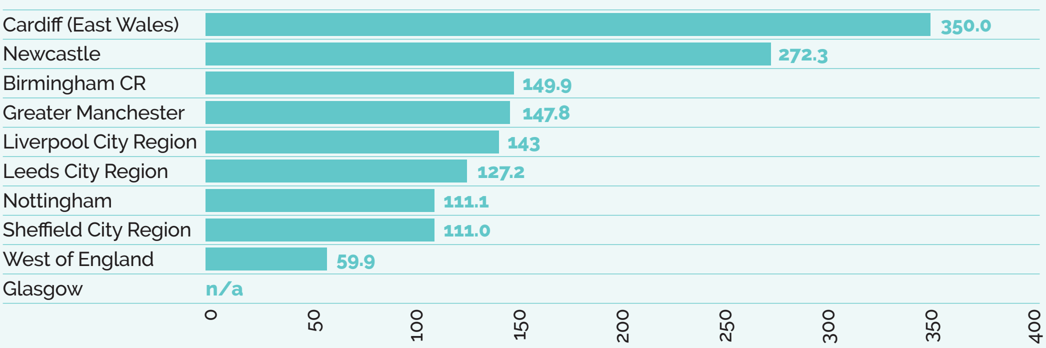
	EU Structural Fund Allocation (€m)	**Euros per capita**
Cornwall and Isles of Scilly	590.4	1,047.5
West Wales & the Valleys	2,005.9	1,021.6
Highlands and Islands	190.3	394.0
East Wales	406.6	350.0
Tees Valley	201.7	299.9
North East	537.4	272.5
Northern Ireland[1]	513.4	274.4

Source: Operational Programmes.
1 Does not include PEACE IV programme in Northern Ireland (€229m across NI and Border region of Ireland) or Wales-Ireland cross-border programme

In England, Structural Funds were allocated to 39 LEP areas, using as a baseline the UK's spend commitments scheduled against the European budget for 2013. There is considerable variation in the allocations to Core City Regions, with three below the English average of €115 per capita – Sheffield City Region, D2N2, which includes Nottingham, and the West of England, which includes Bristol.

The allocations for Liverpool and Sheffield City Regions were the subject of a Judicial Review. Both were Objective 1 regions in 2000-2006 (with a then per capita allocation of circa 1,000 euros), and consider that the system used to allocate Structural Funds across the UK for the 2014-2020 programme resulted in an unfairly low allocation, which would not be an appropriate starting point for discussions regarding the allocation of Shared Prosperity Funds.

Structural Fund Allocations to Core City Regions, 2014–2020 € per capita



Source: Operational Programmes, BIS Letter re LEP ERDF and ESF allocations, ONS Population Estimates.
Note: Data not available for Glasgow. Birmingham CR includes Gtr Birmingham and Solihull, Black Country and Coventry & Warwickshire LEP areas. Newcastle and Nottingham data is for full LEP areas (North East and D2N2), allocations data not available at Core City Region geography.

In total, the Core City regions, including Belfast, account for around one-third of Structural Fund allocations in the 2014-2020 period[7]. There are a considerable number of areas where the 2014-2020 total EU funding and per capita allocations are modest, reflecting spend commitments in 2013 (which in turn reflected allocations to each region in the 2007-2013 programme, which were based on levels of need). These areas are primarily in the south of England and have a population of some 22.7m. Together they have been allocated circa €1bn in the current programme period, just under 10% of the total and only half of the value of the West Wales and the Valleys allocation. The annual allocations in each area are very modest, particularly when spread between two Funds and over a number of priorities.

Conclusion

The Structural Fund approach has changed from one of highly targeted geographical support and a broad range of eligible actives, to universal geographical coverage but a much narrower range of priorities and eligible activities. There has been a consistent balance between ERDF and ESF at the UK level, with two different sets of rules, reflecting EU approaches to employment / skills and regional policy. It is not clear if this distinction will be, or needs to be, continued in the Shared Prosperity Fund.

By far the largest amount of EU regional policy funding is dedicated to the regions designated as less developed. This covers Europe's poorest regions whose per capita gross domestic product (GDP) is less than 75% of the EU average – nearly all the regions of the new member states, most of Southern Italy, Greece and Portugal, and some parts of the United Kingdom and Spain. Funding for Less Developed Regions, like the Convergence objective before it, aims to allow the regions affected to catch up with the EU's more prosperous regions, with funding available for a broad range of investments, including basic infrastructure, helping businesses, building or modernising waste and water treatment facilities, and improving access to high-speed Internet connections. Only some of these investments are relevant in a UK context. This use of a threshold, on either side of which very different levels of resource are available to local areas, is markedly different to the UK approach to the geographical allocation of economic development resources.

7. As there are no geographical allocations to Glasgow or Belfast city regions, it has been assumed that both areas benefit from their ‘fair share’ of the Rest of Scotland and Northern Ireland allocations, i.e. they receive the average amount of funding per head of population as is the case across the wider geography.

3

How Core City Regions have Successfully Invested Structural Funds

"The Core Cities and City Regions have already successfully invested in each of the foundations of productivity, providing a strong asset base and a platform for further investment through the Shared Prosperity Fund."

Introduction

Numerous reports have highlighted both the importance of the Core Cities as drivers of the UK economy and the impact of below-average levels of productivity within the Core Cities on overall UK output and prosperity levels[8]. The Core Cities have developed local economic strategies to target investment and deliver inclusive economic growth.

EU Structural Funds are investing over £1bn per annum in economic development in the UK over the current seven year programming period. This investment is being supported by a considerable amount of match funding, primarily from the public sector. Whilst the themes and priorities under which investment has been made have changed from one programme period to the next, given the links being made between the UK SPF and the UK Industrial Strategy, it is useful to consider the investment of Structural Funds using the Industrial Strategy's five foundations of productivity framework: ideas, people, infrastructure, business environment and place.

The Core Cities and City Regions have already successfully invested in each of the foundations, often using Structural Funds and working closely with Government and other public and private sector partners. These previous investments represent a strong asset base for the Core Cities, and provide a platform for further investment through the Shared Prosperity Fund.

Foundations of Productivity: Ideas

The UK Industrial Strategy sets out the role of ideas in the new industrial revolution:

"Our ability to innovate – to develop new ideas and deploy them – is one of Britain's great historic strengths, from the jet engine and the bagless vacuum to MRI scanners and the world wide web. We are a global leader in science and research: top in measures of research excellence and home to four of the top 10 universities in the world.

We need to do more to ensure our excellence in discovery translates into its application in industrial and commercial practices, and so into increased productivity. The government and the private sector need to invest more in research and development (R&D). We need to be better at turning exciting ideas into strong commercial products and services. And we must do more to grow innovation strengths in every part of the UK, as well as maintaining our position as a global leader in science and innovation.

Through our Industrial Strategy, Britain will take a leading role in a new industrial revolution as significant as the last."

The national Industrial Strategy sees a key role for universities as suppliers of highly skilled graduates, drivers of innovation and enterprise and as significant local

8. Core Cities UK 2030, Core Cities, 2018; Understanding Core Cities' Productivity Gaps, New Economy, 2015.

economic entities in themselves. The Core Cities have numerous universities, many of which are world class institutions including research- intensive Russell Group universities. Each of the Core Cities contains a Russell Group university, while there are twelve overall in the Core City Regions, accounting for half of all Russell Group universities.

The links between cities and their research institutions are crucial to creating a productive environment for innovation. If the UK SPF is to succeed in growing innovation strengths in every part of the UK, and translating R&D discoveries into industrial and commercial practices, other post-Brexit policy must also be supportive of this aim, e.g. through the ability to continue to participate in EU innovation programmes and partnerships, and the agreement of a transition period to enable our research institutions to adapt to major change.

The Structural Funds have supported major investment in research and innovation through a wide range of investment both in terms of research facilities, incubation centres and revenue funded support aimed at company commercialisation. Around one-quarter of funding is now allocated to innovation activities[9].

Structural Fund Investment in Research and Innovation in the UK

	2000-2006	2007-2013	2014-2020
Total ERDF, €m	7,976	5,416	5,817
Research and Innovation, €m	626	1,614	1,398
Research and innovation, %	7.8%	29.8%	24.0%

Source: Inforegio Regional Policy archive, European Commission Operational Programmes 2007-2013, UK ESIF Operational Programmes 2014-2020

Key Investments

Stimulating higher levels of innovation activity requires long-term investment and commitment to providing excellent facilities, developing world-leading expertise and bringing about a culture change amongst the business base. Many of the Structural Fund investments made in innovation-related activities in the Core City Regions reflect this long-term approach, with investments made in one programme period reinforced by further, complementary investment in later years. Many of these investments will help to address the grand challenges identified in the Industrial Strategy - artificial intelligence and Big Data, clean energy, an ageing society, and future mobility. This is illustrated in a number of examples, including:

- **The National Graphene Institute (NGI) in Manchester –** Part of the University of Manchester, the NGI is a 7,825 sq.m research centre which enables commercial and academic collaboration to develop new and innovative applications of graphene, a carbon based material used in biomedical, electronics, energy and various other sectors. The NGI was funded by one of the largest ERDF grants in the 2007-2013 programme – £23m – in addition to £38m from the Engineering and Physical Sciences Research Council (EPSRC), reflecting the importance of this advanced

9. The EU has also supported investment in R&D through other funding streams, including Horizon 2020, which are not within the scope of this study

material to numerous sectors and the future of the UK economy as a whole. The NGI employs more than 300 highly skilled researchers within the heart of Manchester as has worked with more than 80 companies on various pieces of research.

__THE NATIONAL GRAPHENE INSTITUTE WAS FUNDED BY ONE OF THE LARGEST ERDF GRANTS IN THE 2007-2013 PROGRAMME – £23M.

Recognising the need to accelerate the industrialisation of graphene in the UK if the country is to maximise the economic benefits of the world-leading research being undertaken in Manchester, in the 2014-2020 programme, the University of Manchester obtained further ERDF funding (£5m within a £55m total funding package, including £30m of private sector investment) for the Graphene Engineering Innovation Centre (GEIC). This research centre is focussed on the scalability of graphene in a number of key sectors such as composites and coatings, energy, membranes, and mass production and reflects the importance of commercialisation if the economic benefits of the discoveries made in Manchester are going to be retained within the city.

- **Advanced Manufacturing Research Centre, Sheffield –** The AMRC is a research centre with world-leading expertise in advanced machining, manufacturing and materials which are used in a number of different sectors at the heart of the UK's manufacturing economy. The AMRC was established in 2001 as a collaboration between the University of Sheffield and Boeing, with ERDF contributing towards the £15m cost, and in 2003 became the anchor tenant on the Advanced Manufacturing Park (AMP), a brownfield site on the borders of Sheffield and Rotherham which is now home to a thriving cluster of advanced manufacturing companies, including major international inward investors, indigenous SMEs and high-tech start-up companies.

__THE ADVANCED MANUFACTURING RESEARCH CENTRE NOW EMPLOYS SOME 500 HIGHLY-SKILLED RESEARCHERS AND PROVIDES HIGH QUALITY TECHNICAL AND APPRENTICESHIP TRAINING TO 300 EMPLOYERS FROM ACROSS SHEFFIELD CITY REGION AND BEYOND, TRAINING 1,000 APPRENTICES SINCE 2013.

The AMRC now employs some 500 highly-skilled researchers and provides high quality technical and apprenticeship training to 300 employers from across Sheffield City Region and beyond, training 1,000 apprentices since 2013. The 2007-2013 programme supported the development of Factory 2050, the UK's first state of the art factory, and the Knowledge Transfer Centre, which enables technologies to be shared with the manufacturing business base. In the 2014-2020 programme, a total of £9.1m in ERDF funding has been invested in a number of different projects at the AMP including the Royce Translational Centre and the Laboratory for Verification and Validation.

The ERDF support of the AMRC has helped to attract significant investment from the private sector, notably with the opening of the Rolls-Royce Factory of the Future; Boeing's manufacturing facility; and McLaren's Composite Factory on the site. The £50m investment from McLaren will have a focus on carbon fiber composite research and manufacturing, providing the local area with an additional 200 jobs and an estimated £100 million in GVA over the next decade.

- The **National Composites Centre in Bristol** is also focussed on new and advanced materials. The Centre brings together commercial businesses and highly skilled academic researchers to develop and introduce innovative methods of manufacturing for composite materials into the UK sector. The total £25m project was supported by £9m in ERDF funding from the 2007-2013 programme, and is a hub for the development and application of rapid composite technology. The NCC has worked with a number of world-renowned businesses including Shell, Airbus, GE Aviation, Roll-Royce and Siemens.

- Research focussing specifically on the aerospace sector - one of the UK's key export industries – is undertaken at the **Institute for Aerospace Technology (IAT), Nottingham**. Based at the University of Nottingham, the IAT obtained £10m ERDF

THE INSTITUTE FOR AEROSPACE TECHNOLOGY CURRENTLY EMPLOYS 400 HIGHLY SKILLED RESEARCHERS AND HAS PROVIDED WORLD-LEADING RESEARCH ON MORE THAN 70 PROJECTS IN COLLABORATION WITH COMPANIES SUCH AS ROLLS-ROYCE, AIRBUS, BOEING, BOMBARDIER AND BAE SYSTEMS.

investment from the 2007-2013 programme to provide a research centre for the UK aerospace sector. The IAT currently employs 400 highly skilled researchers and has provided world-leading research on more than 70 projects in collaboration with companies such as Rolls-Royce, Airbus, Boeing, Bombardier and BAE Systems. The research focuses on the aerospace sector of the future, including research into electric aircraft, wider aerospace manufacturing and operations.

- **Newcastle Helix**, (formerly known as Science Central), is the UK's biggest urban development site outside London. The 24 acre site is a partnership between Newcastle City Council, Newcastle University, and Legal and General and is becoming a leading centre of urban innovation, combining cutting edge architecture with innovative public spaces, world renowned scientific expertise and leading edge companies. ERDF funding has supported a number of developments on the site.

Under the 2007-2013 programme, £6m ERDF was invested in The Core, which opened in 2014 to provide serviced office space for knowledge-based SMEs whose work is related to innovation, science, technology. In addition, under the 2014-2020 programme, £5m ERDF has been invested in the Biosphere building, which provides 90,000ft2 of high-quality biology and chemistry laboratories, offices and conference space to support the growth of the life sciences sector.

- Also in the Newcastle Core City Region, the **National Renewable Energy Centre –** now part of the Offshore Renewable Energy Catapult – is the UK's flagship technology innovation and research centre for offshore wind, wave and tidal energy hosting some of Europe's largest translational research and testing facilities for

THE NATIONAL RENEWABLE ENERGY CENTRE – NOW PART OF THE OFFSHORE RENEWABLE ENERGY CATAPULT – IS THE UK'S FLAGSHIP TECHNOLOGY INNOVATION AND RESEARCH CENTRE FOR OFFSHORE WIND, WAVE AND TIDAL ENERGY.

electrical networks, offshore wind, marine and tidal power generation technologies. ERDF investment of £14.9m has helped create unique, world class facilities in the heart of Blyth, Northumberland, including the world's largest turbine blade facility capable of testing blades up to 100 metres and the world's most advanced marine test lab. The ORE Catapult will have a key role to play in supporting the move towards clean energy.

- Also focussed on addressing the clean energy challenge, the **European Bio-energy Research Institute, Birmingham**, was supported with £8.2m ERDF investment from the 2007-2013 programme with a focus on bioenergy research. The ERBI supports businesses to introduce bioenergy into their business model, enabling more sustainable business operations through innovation. Similarly, the **Bio-Renewables Centre, in Leeds City Region** (York), utilises renewable and waste material to develop more sustainable and green manufacturing processes for businesses as part of the circular economy. With over 20 highly-skilled members of staff, the BDC has worked with a number of businesses in the Yorkshire and Humber region and nationally including Drax Power in Selby and WRAP in Banbury to use waste materials to create additional sources of energy to increase business efficiencies and reduce the cost of waste.

- The Industrial Strategy highlights the importance of Artificial Intelligence and Big Data to the future of the UK economy. **The Sensor City project in Liverpool** provide support to SMEs to enable them to adapt to the Internet of Things (or Industry 4.0). This £5m ERDF funded collaboration between the University of Liverpool and Liverpool John Moores University brings together commercial and academic organisations to research the application of new innovative sensors in a number of different sectors. With a purpose-built centre based at the University Enterprise

__THE £5M ERDF FUNDED COLLABORATION BETWEEN THE UNIVERSITY OF LIVERPOOL AND LIVERPOOL JOHN MOORES UNIVERSITY BRINGS TOGETHER COMMERCIAL AND ACADEMIC ORGANISATIONS TO RESEARCH THE APPLICATION OF NEW INNOVATIVE SENSORS IN A NUMBER OF DIFFERENT SECTORS.

Zone in the Knowledge Quarter, Sensor City is gives SMEs and large companies access to highly skilled researchers and state of the art equipment.

- Structural Funds have also been used to strengthen the UK's expertise in health and bioscience. Under the 2000-2006 programme, the Liverpool School of Tropical Medicine (LTSM) was granted £9m ERDF funding through the JESSICA programme for the **Centre for Tropical Infectious Diseases**, a 7,800 sq.m research facility based within the Knowledge Quarter to act as a hub in the North West for biomedical research and innovation. The new research centre has created 250 highly skilled jobs and has secured inward investment of $190m from the Gates Foundation. In 2018, the LTSM announced plans for a new £25m investment through the Liverpool Life Sciences Accelerator to provide a new laboratory for research into antibiotic resistance.

- Cardiff has also benefited from health-related ERDF investment. In 2015, the **Cardiff University Brain Research Imaging Centre** secured £4.6m ERDF funding from the 2014- 2020 programme for the construction of a new research centre, four times the size of the previous research facility on campus. With the use of high tech MRI scanners, the centre provides world leading research into the development and causes of neurological and psychiatric conditions including dementia and schizophrenia, with the overall aim to identify and develop treatments. Since opening in 2016, CUBRIC II has accommodated over 60 researchers in improved infrastructure facilities and created 29 new roles for highly skilled researchers.

- Cardiff is also benefiting from ERDF investment in the **Institute for Compound Semi-Conductors** (ICS), a five-year, £32+m investment part-funded through the ERDF 2014-2020 East Wales Programme. The ICS will provide a link between the

__THE INSTITUTE FOR COMPOUND SEMI-CONDUCTORS WILL PROVIDE A LINK BETWEEN THE RESEARCH LABORATORY UNDERTAKEN AT THE UNIVERSITY, AND THE NEEDS OF BUSINESS IN THIS INCREASINGLY IMPORTANT ENABLING TECHNOLOGY.

research laboratory undertaken at the University, and the needs of business in the increasingly important enabling technology of compound semiconductors, which are crucial to the effective operation of the internet, smart phones and tablets, and satellite television, amongst many other applications.

- In Glasgow, the **Technology and Innovation Centre** at the University of Strathclyde is an £89m project which included a £6.7m ERDF contribution through the 2007-2013 programme. The TIC brings together 850 academics, researchers and project managers from the University and its leading industrial partners to work side-by-side in a state of the art building in the heart of Glasgow and is helping to transform university-business collaboration, focussing on challenges in key sectors including

THE TECHNOLOGY AND INNOVATION CENTRE BRINGS TOGETHER 850 ACADEMICS, RESEARCHERS AND PROJECT MANAGERS FROM THE UNIVERSITY AND ITS LEADING INDUSTRIAL PARTNERS TO WORK SIDE-BY-SIDE.

  manufacturing & materials, health & wellbeing, innovation & entrepreneurship, measurement science & enabling technologies and ocean, air & space. The TIC is a key part of Scotland's International Technology and Renewable Energy Zone, a global research and development hub, which bring business and academia together to develop the offshore renewables sector, a key part of the clean growth challenge identified in the UK Industrial Strategy.

- In Belfast, a partnership between Queens University Belfast, Ulster University and diagnostic company Randox Laboratories has been awarded over £23m in ERDF funding from the 2014- 2020 programme for a number of **research and development centres of excellence**, based at the Randox Science Park on the outskirts of Belfast in Antrim. The developments focus on research related to the future of healthcare and understanding how to improve diagnosis and treatment for long term and chronic health issues such as Alzheimer's and genetic conditions.

  The funding is split over four different projects:
  - Centre of Excellence for Biomedical Applications (£10.6m)
  - Centre of Excellence for Diagnostics (£7.8m)
  - Centre of Excellence for Quality Controls (£4.6m)
  - Mass Customisation and Rapid Prototyping Facility (£0.4m)

  The projects aims to develop the research and innovation assets in Northern Ireland alongside improving the connections between the private sector and academia.

In addition to the capital investment in innovation facilities and equipment, often with related revenue programmes, illustrated above, many of the Core City Regions have also used ERDF to support activities which seek to engage local SMEs and new start companies in innovation, and support the transfer of knowledge from the higher education sector into the business base. One such example in the current programme is **Enabling Innovation, Nottingham**. This project involves the three largest universities in the East Midlands (Nottingham, Derby and Nottingham Trent) who will assist more than 2,000 SMEs across the D2N2 area. The three year programme received just under £10m ERDF investment and aims to help businesses become more involved with 'enabling technologies'. Since the summer of 2016, the project has provided over 500 SMEs with a range of innovation-related support, including workshops, networking events, student projects and more specialist support.

Whilst less 'visible' than the development of new facilities, the work to engage SMEs with innovation is crucial to the future success of the UK economy as the country seeks to address the prevalence of low productivity businesses across all

SINCE THE SUMMER OF 2016, THE ENABLING INNOVATION PROJECT HAS PROVIDED OVER 500 SMES WITH A RANGE OF INNOVATION-RELATED SUPPORT.

regions. Across the Core Cities and over the three programme periods, thousands of businesses have been supported to work with higher education institutions, provided with innovation vouchers or grants to access specialist support, and encouraged to incorporate innovation as a core part of their business model

Conclusion
The scale of innovation investment by the Core City Regions has been exceptional, with leading edge centres now providing world-class facilities for sectors and technologies including advanced materials, life science and low carbon industries and renewable energy. A number of leading locations, such as the Advanced Manufacturing Park and Corridor Manchester have built up a critical mass of facilities, benefitting from phased investment over a number of programme periods, high-lighting the importance of long term funding to develop innovation districts. This investment has required the commitment and support of both the Universities who have tended to be the applicants for funding, and the Core City local authorities, who have created an environment in which higher education institutions feel confident about investing in their estate and facilities for the benefit of the local economy.

Investment in research facilities has been complemented by specialist incubation centres and grow on space, as well as revenue support to help small and medium sized companies to develop new products and processes, accessing world class expertise in local Universities. The combination of research facilities, business space and business support has led to considerable success in the commercialisation of science and technology.

There are now several thousand scientists and post-doctoral staff in the Core City Region EU funded research centres, while several thousand businesses each year in key sectors such as renewable energy, health innovation, advanced materials and life sciences are provided with high quality, bespoke innovation support. Many of the investments made in previous years will have a key role in addressing the challenges identified in the Industrial Strategy and supporting productivity growth.

Although there are other sources of funding for investment in innovation, these tend to focus resources on areas which already have strong economic performance. One strength of the Structural Funds, is that funding has been (at least notionally) allocated to support innovation in each of the Core City Regions. It is important that all the Core Cities remain able to access funding for innovation after the end of the Structural Funds.

Foundations of Productivity:
People: good jobs and greater earning power for all

The Industrial Strategy sets out the importance of people and human capital in increasing UK productivity, including narrowing disparities between communities in skills and education and removing barriers faced by workers from underrepresented groups in realising their potential. The description of the UK labour market included in the Industrial Strategy, repeated below, does not reflect the reality of the position in many of the core cities and their surrounding city regions, which continue to be affected by high levels of economic inactivity, even though unemployment has fallen and employment is at very high levels. Many of the jobs created recently are low paid, in low productivity sectors and do not always offer good quality employment.

"The United Kingdom has one of the most successful labour markets in the world. Our employment rate is at a near historic high – one of the fastest post-recession rates relative to other major economies. It is underpinned by a world-class higher education system, the first choice of students and researchers around the world. Employers are ever more closely involved in the system, and we are committed to delivering three million apprenticeship starts by 2020.

But we still face challenges in meeting our business needs for talent, skills and labour. In the past, we have given insufficient attention to technical education. We do not have enough people skilled in science, technology, engineering and maths. We need to narrow disparities between communities in skills and education and remove barriers faced by workers from underrepresented groups in realising their potential.

We will ensure that everyone can improve their skills throughout their lives, increasing their earning power and opportunities for better jobs. We will equip citizens for jobs shaped by next generation technology. As the economy adapts, we want everyone to access and enjoy good work. We will put technical education on the same footing as our academic system, with apprenticeships and qualifications such as T levels. We will continue to support teaching in our schools, flexible career learning and other measures to transform people's life chances."

The European Social Fund accounts for circa 45% of the Structural Fund investment made in the UK. It has been a major sponsor of training for twenty years, and has addressed the need to support those most distant from the labour market. It has had a considerable impact on key target groups, including the young people Not in Education Employment or Training (NEET).

ESF has focused on Levels 1 and 2 to ensure more people had suitable qualifications to enter employment, and in Level 3 to support a skilled workforce. It has been less involved in supporting higher level skills training.

The Core Cities (in England) have had less flexibility with regard to the use of ESF than has been the case with ERDF, with national agencies including the Education and Skills Funding Agency (ESFA) and Department for Work and Pensions (DWP) playing a greater role in the use of ESF resource, through co-financing and the 2014-2020 opt-ins.

Structural Fund Investment – People

	2000-2006	2007-2013	2014-2020
Total ERDF & ESF, €m	16,317	9,891	10,795
Total ESF, €m	7,781	4,475	4,978
People as % of total SF	47.7%	45.2%	46.1%

Source: Inforegio Regional Policy archive, European Commission Operational Programmes 2007-2013, UK ESIF Operational Programmes 2014-2020

Key Investments

The use of ESF can be broadly categorised into four activities: tackling poverty and promoting social inclusion, employability and entry to work, in-work skills development, and higher-level skills development. Examples of projects from across the Core City Regions include:

Tackling Poverty and Promoting Social Inclusion

- Many of the Core City areas in England are using BIG Lottery funding through the Building Better Opportunities fund to match ESF and deliver activity to tackle poverty and promote social inclusion. In Sheffield City Region, this has included both **holistic support** and **support to develop social entrepreneurship** amongst vulnerable groups and those living in the most deprived areas.

- In Bristol, Building Better Opportunities funding is being matched with ESF to deliver **West of England Works**, a programme to support young people and adults who face multiple and complex barriers to securing sustainable employment and training. The model supports people as they move from social exclusion to participation in education, training and employment.

Employability and Entry to Work

- Tackling unemployment and economic inactivity has been a long-term priority within Liverpool City Region. The **Job, Education, Training Centres (JET)**, funded under the 2000-2006 programme aimed to help Merseyside residents gain the necessary skills and qualifications to obtain work and reduce unemployment. The JET project took a pragmatic approach, bringing the support to local neighbourhoods and focussing on the areas with the greatest need to ensure that those most in need of support were able to engage with the programme. The JET programme enabled more than 10,000 residents get back into employment, with significant long-term benefits for the local economy.

In the 2014-2020 programme, £29.5m of ESF investment (plus a 30% local match to total £42m) has been allocated to the **Ways to Work programme**, with the aim of assisting approximately 18,000 residents in the Liverpool City Region to get back into work through specialised support and work placements. The programme has a core focus on working with residents who are part of vulnerable groups such as young people leaving care and others with various health conditions.

- Some employability programmes are focussed on specific target groups. The **Works Better** programme in the Leeds City Region secured £2.9m ESF funding from the 2014-2020 programme to tackle increasing levels of unemployment in adults over 25 in the region. The programme offers unemployed adults the opportunity to gain vital work experience, allowing them to develop their skills and increase their

SINCE ITS INCEPTION, THE WORKS BETTER PROGRAMME HAS HELPED MORE THAN 600 PEOPLE GET BACK INTO WORK ACROSS THE LEEDS CITY REGION.

confidence. Each participant has a mentor to support their transition back into work, in addition to helping with job search and applications. Since its inception, the Works Better programme has helped more than 600 people get back into work across the city region.

- In Greater Manchester, the Growth Company is delivering the **Skills for Employment** programme, which provides one to one support for people who have a barrier to employment or simply want support in improving their employability. Support is personalised and catered for individual needs, and includes confidence building, work experience and support to enter a job.

- In Nottingham, the City Council is working with Futures and the DWP to deliver **Nottingham Jobs**, which is part-funded by ESF. Nottingham Jobs provides employment and skills brokerage to people looking for work across the city's neighbourhoods, and works with employers to source opportunities and support people into them. It is also delivering the £22.7m Nottingham Works programme for 16-29 year olds who face barriers in finding work, which is also funded through ESF and the Youth Employment Initiative.

- **LEMIS+** is a Belfast-wide project which addresses long term unemployment by targeting support on those who are most removed from the job market. Delivered by a partnership led by Ashton Community Trust, the project was awarded just over £14.6m ERDF funding from the 2014-2020 programme. The project offers mentoring and coaching to help people acquire new skills and confidence through connections with local employers. The project is voluntary, provides client-centred support, and links people with real jobs through an employer liaison service which matches employers to the most suitable person for their business.

- **Glasgow Works** was an employability programme which initially ran from 2008 and 2011. It took 'whole needs' approach to address the issues and barriers faced by workless and disadvantaged people to help them progress towards and move into employment. It supported five main target groups: clients on incapacity benefits, ethnic minorities, lone parents, young people from the More Choices More Chances group (who are not in employment, education or training) and long-term unemployed people. The 2008-2011GW programme received £10m of ESF monies towards £23m total eligible costs and comprised two components: a job brokerage service to identify vacancies, and work with employers such as Strathclyde Police and Hilton Hotels to provide the Glasgow Works clients with better opportunities to gain and sustain employment. It also included a childcare refurbishment programme to increase the number of childcare places available and accessible to the Glasgow Works priority groups.

In-Work Skills Development

- The **Skills Enhancement Fund, Leeds.** The SEF programme, delivered by Calderdale College, received £33m ESF investment from the 2007-2013 programme to stimulate investment into workforce skills and development by providing funding for employers to offer their employees additional training courses. Between 2008

BETWEEN 2008 AND 2015, SKILLS ENHANCEMENT FUND, LEEDS SUPPORTED OVER 9,000 BUSINESSES IN THE LEEDS CITY REGION, ASSISTING OVER 43,500 INDIVIDUALS IN GAINING ADDITIONAL TRAINING AND 14,700 ACCREDITED QUALIFICATIONS.

and 2015, SEF supported over 9,000 businesses in the Leeds City Region, assisting over 43,500 individuals in gaining additional training and 14,700 accredited qualifications. SEF also invested approximately £15m into closing the gap between the skills of workers and the demands of the businesses in the city region.

- A similar approach is being adopted under the 2014-2020 programme through **Go Grow, North East.** Gateshead College, the top performing college in the North East and second in England, received £21.4m ESF funding from the 2014-2020 programme for the Go Grow programme. The programme offers businesses training on a wide range of topics, supporting the growth of businesses through upskilling of the workforce and individual accredited qualifications to turn small sole trader businesses into thriving SMEs. The programme is managed by Gateshead College, but is delivered through 20 college departments across the North East in addition to 30 training partners, ensuring that businesses are able to find the specific training they need to succeed. Many other areas also have 'Skills Support for the Workforce' type programmes, including some providing higher level skills, skills for those facing redundancy and programmes targeted at specific sector skills, including low carbon and digital.

Higher Level Skills Support

- **Higher Level Skills Match, Birmingham** (HLSM) was awarded £1.3m ESF funding from the 2014-2020 programme to close the skills gap between SMEs and the labour market in the Greater Birmingham and Solihull area. Working across all sectors of the local economy, HLSM supports SMEs to define their skills needs and then matches them to work-ready and highly skilled local graduates. Businesses can access a range of training and development opportunities for their staff to enable them to grow, including the services of and HLSM Account Manager in order to help them secure the skilled labour they need.

- A similar project, **Grads for D2N2**, is being delivered by Nottingham Trent University, working with Nottingham City Council, Nottingham College, the University of Derby, Derby College and Vision West Nottinghamshire College. This project works to strengthen partnerships and co- operation between SMEs and education and skills providers to improve the labour market relevance within the D2N2 education and training system and strengthened vocational education.

- Business in Cardiff can access the KESS2 project which provides **Knowledge Economy Skills Scholarships** to link SMEs and organisations with academic

THE KNOWLEDGE ECONOMIC SKILLS SCHOLARSHIPS PROJECT GIVES SMALL COMPANIES IN CARDIFF ACCESS TO A DEDICATED RESEARCH RESOURCE WHICH CAN HELP THEM BECOME MORE COMPETITIVE, WHILST DEVELOPING POST-GRADUATE RESEARCH AND INNOVATION SKILLS.

expertise in the Higher Education sector in Wales through collaborative research projects. Funding is provided to enable SMEs to undertaken in-depth, tailored research projects – through PhDs or research-led Masters programmes. The project gives small companies access to a dedicated research resource which can help them become more competitive, whilst developing post-graduate research and innovation skills. The project builds on the KESS project which was funded through the 2007- 2013 programme.

Conclusion

ESF supported training activities in the Core City Regions have assisted tens of thousands of people, each year, to access employment and update and improve their skills. This has included consistent support to help younger people access better employment opportunities through a more relevant skills offer which reflects local needs and opportunities.

The Core City Regions have led the way in using ESF to provide support to those most distant from the labour market and who face complex challenges in taking up employment opportunities. This reflects the large number of people with no or limited qualifications and with no or very limited work experience. The Core Cities have focussed their efforts in delivering outcomes which help transform people's lives.

The Core City Regions have increased the effectiveness of ESF investment through the development of employment and skills plans built up from a detailed local labour market analysis including business surveys. This has allowed the Core City Regions to work with partners to reduce duplication and target skills at key occupations and sectors where there is known demand.

The Core Cities have also led the way in linking skills to economic regeneration and providing skills and training support targeted at particular communities affected by multiple deprivation, poor housing and a blighted environment. Much of this work preceded the current emphasis on inclusive growth, with a number of neighbourhood based initiatives sustained over a number of years to increase local impact.

The move towards greater devolution of funding for adult education and skills development provides an opportunity to deliver training which is more closely tailored to the needs of local labour markets across the Core City Regions. If this is combined with successor funding to ESF, there is an opportunity to deliver at a scale that could make a real difference within the cities. However, there is a risk that any replacement funding for ESF remains tightly controlled by central Government, with limited opportunities to respond to local needs.

Foundations of Productivity: Infrastructure

The UK Industrial Strategy sets out the role of infrastructure in the new industrial revolution, including full-fibre broadband, new 5G networks and the regeneration of stations and airports:

We must make sure our infrastructure choices not only provide the basics for the economy, they must actively support our long-term productivity, providing greater certainty and clear strategic direction. Our investment decisions need to be more geographically balanced and include more local voices. We can improve how we link up people and markets to attract investment, and we must be more forward-looking in respect of significant global economic trends.

Through our Industrial Strategy, the country's economic geography will be transformed by a surge of infrastructure investment heralding a new technological era.

We will build a Britain that lives on the digital frontier, with full-fibre broadband, new 5G networks and smart technologies. We will create a new high speed rail network that connects people to jobs and opportunities, regenerate our stations and airports, and progressively upgrade our road network. And we will improve people's lives where they live and work, with high quality housing and clean, affordable energy. Providing the right infrastructure in the right places boosts the earning power of people, communities and our businesses.

The European Regional Development Fund has been a major source of infrastructure investment, although more in the initial programme periods, before eligibility issues restricted investment opportunities. Infrastructure investment has focused on major development locations with economic potential, often linked to railway stations, airports and waterfront areas.

Structural Fund Investment – Infrastructure

	2000-2006	2007-2013	2014-2020
Total ERDF & ESF, €m	7,876	5,416	5,817
Total ESF, €m	1,968	1,000	872
People as % of total SF	25.0%	18.5%	15.0%

Source: Inforegio Regional Policy archive, European Commission Operational Programmes 2007-2013, UK ESIF Operational Programmes 2014-2020

Key Investments

Infrastructure investment has been one of the most visible legacies of the Structural Funds. Although the types of investment which are eligible to be funded has become more restricted over time, there are three key areas of investment: transport and associated commercial space; regeneration and re-development of urban locations; and digital connectivity. Examples from across the Core City Regions include:

Transport Infrastructure

- A number of areas have used ERDF to support the development of airports, improve connectivity and develop surrounding business parks. **John Lennon Airport** received £7.2m ERDF funding from the 2000-2006 programme (as well as £16.8m from the 1994-99 programme) to revitalise the whole site, increasing the capacity of the airport. This included the development of a brand new terminal and supplementary facilities such as hangar capacity for commercial and freight as well as air traffic control. The development at JLA helped provide an additional 2,500 jobs in the local area and saw a nine fold increase in passenger footfall through the airport, and has supported further commercial investment in the airport.

  Investment was also made in the **Speke and Garston Business Park**, which benefited from £1.7m Objective 1 funding, and now offers business units for 650 employers and accommodates 15,000 jobs. £10.8m of ERDF was also invested in the Liverpool South Parkway, which improved road and rail links to the airport from Liverpool South Parkway, in addition to links to St Helens and Liverpool's Edge Lane.

- ERDF has also been used to develop and improve tram and light rail infrastructure in the core cities. Examples include the **Second City Crossing** in Manchester which benefited from £10.8m ERDF funding from the 2007-2013 programme, to connect Manchester Victoria and Exchange Square in the heart of the city centre complementing extensions of the Metrolink to MediaCity, East Didsbury, Rochdale, Ashton and Manchester Airport. The development included a number of public realm improvements, in addition to the creation of new tram stops at Exchange Square and significant improvements to St Peters Square. The development of the Victoria Interchange also received an additional £5m in ERDF funding to improve the connectivity between the Metrolink and the wider rail links from commuters and visitors to Manchester. The investment has contributed to the wider success of Manchester city centre.

- In Nottingham, ERDF funding (€4.2m) made up part of a much larger funding package for the **Nottingham Express Transit** (NET) project. Nottingham's efforts to tackle congestion and encourage greater use of public transport have been widely recognised as an exemplar within England.

- In Belfast, ERDF funding was used to **upgrade the A2**. The A2 is one of the longest roads in Northern Ireland, stretching just under 240 miles around the northern coast carrying approximately 45,000 vehicles per day. Developers were awarded £17.9m

__THE INVESTMENT HAS HELPED TO STRENGTHEN THE ECONOMIC AND SOCIAL LINKS BETWEEN CARRICKFERGUS AND BELFAST, AND IMPROVE CONNECTIVITY TO EXTERNAL MARKETS.

ERDF funding from the 2007-2013 programme for redevelopment of the A-road for the 12 miles of road between Belfast and Carrickfergus, just north of the capital. The investment has helped to strengthen the economic and social links between Carrickfergus and Belfast, and improve connectivity to external markets.

Urban Regeneration

- Following many years of decline, action was urgently needed to improve Sheffield city centre and increase its attractiveness to shoppers, businesses and as a place to live. The **Heart of the City Programme** in Sheffield began in 1994 and was completed in 2016, and comprised a number of developments to improve the quality of public spaces, commercial and business units in Sheffield City Centre, including the Peace Gardens; Sheffield Town and City Halls; Sheffield railway station and Sheaf Square (£9.1m ERDF); Tudor Square (£4.1m ERDF); Crucible and Lyceum Theatre, The Winter Gardens; Millennium Gallery; and St Pauls Tower. ERDF made up an important component of a much wider funding package, which used public sector investment to pump prime private sector funding.

The **Station Gateway and Sheaf Square** site developed the quality and appearance of Sheffield's city centre from the railway station up to the heart of the city centre, through a mixture of an improved physical environment, pedestrian access, and commercial projects. These have stimulated further investment, including the Electric Works commercial offices, Sheffield Hallam University, Sheaf Square and the Park Hill Redevelopment.

- In Manchester, ERDF funding supported the **New East Manchester / Eastlands Development.** Following the improvements made to the City of Manchester football stadium, a number of additional improvements were supported with ERDF funds. The project obtained £55m ERDF funding to develop old industrial land on the Eastlands site, put in place modern infrastructure and prepare new sites for commercial development.

- ERDF has been invested in a number of different buildings and facilities at **Newcastle Quayside.** This included the Quay Visitor Infrastructure, which obtained £2.5m ERDF funding for the redevelopment of the area. Other buildings in Newcastle / Gateshead which benefitted from ERDF funding include The Sage Music Centre (£5.6m); the Millennium Bridge (£2.8m); The Toffee Factory grade A office space (£2.8m); and the Live Theatre (Liveworks) four storey business centre (£2.5m). The re-development of the Newcastle / Gateshead Quayside has transformed the area and made it more attractive to both local businesses and visitors.

- **Kings Dock Waterfront, Liverpool** is the largest single development on the Liverpool Waterfront and includes the arena, conference centre and exhibition facilities. The project received the largest individual allocation of ERDF funding to date, obtaining £50m in ERDF from the Objective 1 2000-2006 programme. The development created an 11,000 seat multi- use arena including capacity for 1,350 seat conference centre and 7,000 sq. m of exhibition space in the heart of the Liverpool dockside. Since its opening in 2008, the arena has hosted over 400 events and 600 conferences, totalling total footfall of over 2.9 million and is estimated to have contributed an additional £630m to the local Liverpool economy and revitalised the visitor economy.

SINCE ITS INCEPTION IN 2001, OVER 3 MILLION SQ. FT. OF GRADE A OFFICE SPACE HAS BEEN DEVELOPED IN THE INTERNATIONAL FINANCIAL SERVICES DISTRICT, CATERING FOR THE 7.7% OF GLASGOW EMPLOYEES WORKING IN THE FINANCIAL SECTOR, GENERATING APPROXIMATELY £1 BILLION PRIVATE SECTOR INVESTMENT IN THE DISTRICT.

- **International Financial Services District, Glasgow –** Glasgow City Council in partnership with Scottish Enterprise and other stakeholders secured £3.5m ERDF funding from the 2000- 2006 programme to support the development of a purpose built office location to attract businesses in the financial and business services sector from around the globe. Since its inception in 2001, over 3 million sq. ft. of grade A office space has been developed in the IFSD, catering for the 7.7% of

Glasgow employees working in the financial sector, generating approximately £1 billion private sector investment in the district. The jobs attracted to the IFSD have generated benefits for other sectors, creating 1,600 leisure and retail jobs as well as 700 new residential units and 100,000 sq. ft. of retail space for the wider benefit of the local economy. The talent pipeline emerging from Glasgow's universities, existing skilled workforce and availability of top quality workspace have led to significant inward investment by financial and professional services companies, creating high-skilled, well-paid jobs.

- In Bristol, a former aircraft hangar site at Knowle West has been regenerated and developed into the **Filwood Green Business Park**, supported with £5.5m of ERDF funding through the 2007-2013 programme. Part of a long-term programme to regenerate Knowle West, which is covered by the South Bristol Sustainable Urban Development Programme in the 2014-2020 programme, the business park provides office and workshop space for small and medium sized businesses with an environmental ethos, and was built to the highest environmental standards. The business park responds to local needs for high quality business space, as well as regenerating an important site within Knowle West.

THE FILWOOD GREEN BUSINESS PARK RESPONDS TO LOCAL NEEDS FOR HIGH QUALITY BUSINESS SPACE, AS WELL AS REGENERATING AN IMPORTANT SITE WITHIN KNOWLE WEST.

- Under the 2007-2013 programme, Birmingham City Council ran a **Property Investment Programme grant scheme**, which supported businesses seeking to improve their premises in Digbeth and the Jewellery Quarter. The PIP provided grant funding towards the cost of improvements in buildings and workspace, where it could be shown that this will lead to jobs growth. The project linked to other projects which sought to accelerate growth in the creative and cultural sector. Over £3.5m of ERDF funding was awarded towards total projects costs of £7.6m.

Digital Connectivity and Smart Cities

- Many Core City Regions have been involved in projects to accelerate the roll-out of high-speed broadband. In the 2014-2020 programme, this includes the **Superfast West Yorkshire and York** project, which has secured £6.89m of ERDF funding for its current phase of activity. There is also a **Superfast Broadband project in East Wales**, including Cardiff city region, following on from investment through the 2007-2013 programme. The project aims to support economic growth and improved quality of life for all residents, by providing nearly 47,000 premises in East Wales with broadband access of at least 30 Mbps.

- **Scotland's Eighth City Programme**. The seven cities in Scotland (Aberdeen, Dundee, Edinburgh, Glasgow, Inverness, Perth and Stirling) and Scottish Cities collaborated to develop the Eighth City programme, which secured £10m ERDF funding from the 2014-2020 programme. The programme has supported a number of pilot projects which promote innovation and improve the attractiveness of each city, making cities more vibrant and liveable through the use of big data and

SCOTLAND'S EIGHTH CITY PROGRAMME HAS SUPPORTED A NUMBER OF PILOT PROJECTS WHICH PROMOTE INNOVATION AND IMPROVE THE ATTRACTIVENESS OF EACH CITY, MAKING CITIES MORE VIBRANT AND LIVEABLE THROUGH THE USE OF BIG DATA AND TECHNOLOGY.

technology. The programme features 29 different projects across the cities, focusing on the use of big data and the internet of things to create smart cities, aligning a number of different city functions under one sophisticated system including energy, mobility, waste management, public safety, street lighting and water management.

Conclusion

ERDF investment in infrastructure have supported some of the most high profile and high impact economic development projects in many Core Cities. These include new business districts, regenerated quarters of major cities and delivering the catalytic benefits of new infrastructure, such as regional airports.

Given the challenge of renewing pre-Victorian infrastructure and the remediation costs of long term industrial use in key sites, ERDF played a major role in addressing market failure and the need for infrastructure investment remains undiminished. Newcastle Quayside and Liverpool Waterfront are high profile examples of successful regeneration through ERDF investment, as is Sheffield City Centre and Manchester's new business district at Spinningfields. These are examples of infrastructure investment leading to catalytic investment by the private sector, once core infrastructure is in place and remediation and other issues are addressed.

There remains a considerable list of infrastructure investment opportunities linked to other investment in the road and rail network, providing the chance to secure new private sector investment to help accelerate economic growth. To exploit these opportunities, the Core City Regions need the flexibility to develop projects which respond to need, rather than being driven by funding rules and requirements.

Foundations of Productivity: Business Environment: the best place to start and grow a business

The UK Industrial Strategy sets out the crucial role of the business environment in creating a strong and prosperous economy:

The United Kingdom has a global reputation as a good place to do business. A new business starts up every 75 seconds, and we are home to five of the top 10 fastest-growing businesses in Europe. People looking to grow or relocate a business come to Britain confident in our high corporate standards. The OECD ranks us as one of the best places to start and grow a business; we have the most competitive tax rates and we are welcoming to global talent and disruptive start-ups.

Our challenge is to improve how we spread the best practice of our most productive businesses. We are one of the world's great financial centres, yet growing businesses sometimes face difficulty in accessing finance.

Our managers are, on average, less proficient than many competitors, and we should make better connections between high-performing businesses and their supply chains.

Our Industrial Strategy aims to make Britain the best place to start and grow a business, and a global draw for innovators. We will drive productivity in businesses of all sizes by increasing collaboration, building skills and ensuring everyone has the opportunity of good work and high- paying jobs. We will ensure the financial sector is better connected to the rest of the economy, driving impactful investments. We will create a business environment equipped for the challenges and opportunities of new technologies and ways of doing business.

The European Regional Development Fund has been a long term investor in business support and in supporting new start, sector growth and access to finance. The proportion of funds provided to business revenue projects has increased as eligibility rules have restricted capital investment.

Structural Fund Investment – Business Environment / Support

	2000-2006	2007-2013	2014-2020
Total ERDF & ESF, €m	7,976	5,416	5,817
Total ESF, €m	1,994	1,757	2,790
People as % of total SF	25.0%	32.4%	48.0%

Source: Inforegio Regional Policy archive, European Commission Operational Programmes 2007-2013, UK ESIF Operational Programmes 2014-2020

Key Investments

A large number of projects relating to the business environment have been funded in each of the Core City areas. These can be broadly grouped into three activities: incubators and business premises; business growth; and access to finance.

Incubators and Business Premises

- **CityLabs Phases 1 / 2 / 3, Manchester –** CityLabs provides a number of Grade A laboratory, research, and office spaces in the biomedical sector. The aim of the CityLab project is to provide a centre for innovative biomedical businesses to grow and develop their ideas, to improve health outcomes in the NHS and generate economic benefits. CityLab 1.0, which opened in 2014, provided a 100,000 sq. m research facility based at St. Mary's Hospital, while the second and third phases were part of a £60m expansion within the Hospital and provided an additional 220,000 sq. m office and research space to the Manchester Foundation Trust campus.

  Also in Manchester, the **Sharp Project** is a flagship development for digital production and media. The development converted the old Sharp Warehouse north east of Manchester city centre and offers 200,000 sq. m of office, production and event space in Manchester, and currently hosts more than 60 companies creating approximately £21m of business since opening in 2011. The Sharp Project also offers a large event space and regularly hosts tech and venture capital events.

- In Nottingham, the re-development of the Creative Quarter in the city centre has involved a mix of urban regeneration and business development investment. The **Creative Catalyst** project situated at a Victorian former hosiery factory in Sneinton

NOTTINGHAM HAS ALSO BENEFITED FROM ERDF INVESTMENT IN BIOCITY, WHICH RECEIVED FUNDING OF €5M THROUGH THE 2000-2006 PROGRAMME. BIOCITY PROVIDES SPECIALIST ACCOMMODATION FOR BIOTECH AND HEALTHCARE COMPANIES, AS WELL AS ACCELERATOR PROGRAMMES TO STIMULATE FASTER GROWTH.

  was awarded £3.7m ERDF investment under the 2007-2013 programme for the redevelopment of the building into a 3,100 sq. m office space able to support up to 80 new jobs. Associated investment includes the **Creative Quarter Feeder** business support project, a £500,000 ERDF funded project that has provided vital support for 70 local residents to set up and grow their own business and wider **Creative Quarter** ERDF investment, including £2.8m funding for a series of public realm works within the quarter as well as improving business connectivity and to promote the area as an attractive place for business.

- Nottingham has also benefited from ERDF investment in **BioCity**, which received funding of €5m through the 2000-2006 programme. BioCity provides specialist accommodation for biotech and healthcare companies, as well as accelerator programmes to stimulate faster growth. The site has grown to four separate buildings on the site of the former Boots R&D centre, as well as the separate MediCity facility. The BioCity company, a partnership established between the University of

Nottingham and Nottingham Trent University, now runs similar facilities in Glasgow, Cheshire and Newcastle.

- The **Digital Campus** development in Sheffield offers over 56,000 sq. m of Grade A office space close to the railway station, targeted at attracting creative and digital businesses to the city. The Digital Campus was awarded £1.6m in ERDF investment as part of the 2000-2006 programme, and has been constructed in three phases. The first phase included the development of the Electric Works and Ventana House, now home to WANdisco and Sky Bet. The second and third phases include further developments of new buildings, situated between the digital campus and Ponds Forge (phase 2), and the railways station and Sheaf Street (phase 3) and have been largely funded through private sector (speculative) investment.

- In Cardiff, £1.8m of ERDF funding has been allocated to the **Data Innovation Accelerator** (DIA), a partnership between Cardiff University and the Welsh Government. The DIA will transfer data science and analytics knowledge from Cardiff University into SMEs across Wales, turning data science research into new products and services.

__THE DATA INNOVATION ACCELERATOR WILL TRANSFER DATA SCIENCE AND ANALYTICS KNOWLEDGE FROM CARDIFF UNIVERSITY INTO SMES ACROSS WALES, TURNING DATA SCIENCE RESEARCH INTO NEW PRODUCTS AND SERVICES.

Business Growth

- The **Business Growth Programme** (BGP) in Birmingham secured £16.3m ERDF funding from the 2014-2020 programme and aims to support SMEs within Greater Birmingham and Solihull, Stoke-on-Trent and Staffordshire, and The Marches local enterprise partnership areas. Delivered by the Birmingham City Council's Business Development and Innovation Team, the BGP built on a former grants programme available to businesses in the area, which focused on business development, business innovation and the green economy supply chain. The current programme, offers various types of support including 1-2-1 mentoring, financial support of up to £167,000, and different workshops and networking events.

- The **Ad:Venture High Growth Business Support Programme** in Leeds City Region obtained £6.2m ERDF investment from the 2014-2020 programme. The programme offers full wrap-around support for new and growing SME businesses in the Leeds City Region. In addition to offering grants, the programme offers an array of different support tools to help young businesses thrive. These include 1-2-1 mentoring, workshops on various topics, business spaces to work, and an entrepreneur knowledge exchange tapping into connections at the universities in the city region.

- A number of Core City areas have used ERDF to enhance the service and support provided through **Business Growth Hubs**. In Liverpool City Region, ERDF has been used to provide an integrated package of business support, which is delivered in each of the local authority areas.

- In the Brsitol City Region area, ERDF is funding a **Social Enterprise and Innovation Programme**, which aims to provide business support to social entrepreneurs, and to support business growth for existing ventures in the west of England area; Bristol, Bath, South Gloucestershire and North Somerset. The programme, led by the University of Bath, provides start-up workshops and business incubation support for existing businesses and new starts which are looking to generate a social impact.

Access to Finance

- The Core Cities have developed a number of financial instruments to provide finance to SMEs with growth potential. In the North East, the **Finance for Business North East** programme provided support to SMEs across the region, and made investments until the end of 2016, with benefits being realised until 2020. With an initial value of £125m, including £44.25m ERDF matched with funding from One North East's Single Pot and the European Investment Bank, the Fund provided debt and equity finance ranging from £1,000 to £1.25m, to SMEs based in or re-locating to the North East. Across the North East, the Fund supported 937 businesses, secured £211m of private sector investment, and created over 3,000 new jobs, and

TWO HUNDRED AND FIFTY OF THE SMES SUPPORTED WERE BASED IN NEWCASTLE, WITH £48M OF LOAN FUNDING SECURING £58M OF PRIVATE SECTOR INVESTMENT, CREATING 700 JOBS AND SAFEGUARDING 1,000 JOBS IN THE CITY.

is expected to generate £75m+ of legacy monies over the next five years. Two hundred and fifty of the SMEs supported were based in Newcastle, with £48m of loan funding securing £58m of private sector investment, creating 700 jobs and safeguarding 1,000 jobs in the city.

- Within the East and West Midlands, the **Midlands Engine Investment Fund** (MEIF) provides SMEs with financial support to stimulate entrepreneurial growth in the region. The MEIF offers funding options for small business loans, debt finance, equity finance and proof of concept, ranging from £25,000 – £2m.

- Similarly, in Glasgow, businesses can access finance for investment which has been channelled through Scotland's **SME Holding Fund**. In total, £40m ERDF funding from the 2014-2020 programme has been matched with £60m of public and private sector funding, and is expected to lever in a further £150m, creating a £250m investment pot. The Fund will support projects which increase business growth and competitiveness, and funds research and development into innovative new products and services (as noted under the 'Innovation' priority). SMEs can obtain finance from the fund for projects which would be deemed too risky by many retail banks, ranging between £25,000 – £100,000 as well as equity investments of up

THE FUND WILL SUPPORT PROJECTS WHICH INCREASE BUSINESS GROWTH AND COMPETITIVENESS, AND FUNDS RESEARCH AND DEVELOPMENT INTO INNOVATIVE NEW PRODUCTS AND SERVICES (AS NOTED UNDER THE 'INNOVATION' PRIORITY).

to £2million. A similar financial instrument – **Co-Fund NI** – provided support to businesses in Belfast looking to grow under the 2007-2013 programme, with the **Crescent Capital Development Fund** providing support to accelerate growth in Northern Ireland under the current programme, as does the **Growth Loan Fund II**.

Conclusion

The Core City Regions have led the way in providing support to business with growth plans and those seeking to strengthen their competitiveness. The facilities and services have included specialist premises and targeted support linked to specific sectors, notably creative and digital industries, now a source of new employment and business opportunities throughout the UK.

The Core City Regions have increased the effectiveness of business support through providing a single point of access and business / growth hubs based on a detailed analysis of business needs. This has allowed the Core City Regions to reduce duplication and target support to meet demand.

The Core City Regions work closely with Chambers of Commence and business networks to ensure services meet business needs. These partnerships have been sustained over many years, making use of both ERDF and ESF funding.

Each year, circa 20,000 businesses are assisted in the Core City Regions though ERDF / ESF funded activities, with many supported over several years as enterprises move from the micro to the small category and from the small to the medium sized category. Many company growth plans have been supported by the financial investment funds put in place in many of the Core Cities.

Funding for business growth has accounted for an increasing share of Structural Funds over the past three programme periods. There is a risk of reduced returns to higher levels of investment, with a relatively small number of medium-sized businesses in each Core City area, together with a very large pool of microbusinesses who can struggle to absorb the support on offer. Additional funding through the SPF might require new ways of working to ensure the maximum benefits are achieved, and there is an opportunity to move away from some of the rules on eligibility, supporting businesses more than once and the types of support provided.

Foundations of Productivity: Places: prosperous communities across the UK
The UK Industrial Strategy highlights the importance of place, and the need to ensure all parts of the UK are realising their economic potential:

The United Kingdom has a rich heritage with world-leading businesses located around the country. Our cities, towns and rural areas have competitive advantages that will be essential to shaping our economic future. Yet many places are not realising their full potential. The UK has greater disparities in regional productivity than other European countries. This affects people in their pay, their work opportunities and their life chances.

Every region in the UK has a role to play in boosting the national economy. We will build on the strong foundations of our city, growth and devolution deals and continue to work in partnership with local leaders to drive productivity. We will introduce Local Industrial Strategies and further strengthen local leadership through Local Enterprise Partnerships and Mayoral Combined Authorities.

We will also introduce new policies to improve skills in all parts of the country, create more connected infrastructure, back innovation strengths, ensure land is available for housing growth, and strengthen our cultural assets. We are working with our partners in the devolved administrations to deliver ambitious plans for communities across Scotland, Wales and Northern Ireland. We will also continue to build the Northern Powerhouse and Midlands Engine to help create prosperous communities throughout the UK.

The Industrial Strategy focus on Place emphasises the role of partnerships and leaders to drive productivity growth. The emphasis is on Local Industrial Strategies, Local Enterprise Partnerships and Mayoral Combined Authorities. A number of the Core City Regions are playing leading roles in both the Midlands Engine and the Northern Powerhouse. Seven of the ten Core City Regions have established Combined Authorities.

Greater Manchester Combined Authority	The GMCA is made up of the ten Greater Manchester councils and the Mayor, who work with other local services, businesses, communities and other partners to improve the city-region. The ten councils have worked together voluntarily for many years on issues including transport, regeneration, and attracting investment. GMCA has a Growth Company providing support to business and works closely with Transport for Greater Manchester. Current plans are developing an employment and skills strategy, while GMCA has responsibility for the devolved adult education budget. The CA manages Investment Funds available to business and for regeneration proposals. GMCA and the Government are co-designing the Local Industrial Strategy with business, the community, the voluntary and social enterprise (CVSE) sector and citizens, building on the productive approach taken to create Our People, Our Place - the Greater Manchester Strategy.

Liverpool City Region Combined Authority	The Liverpool City Region Combined Authority is led by the Metro Mayor, elected in 2017, and includes the six local authorities - Halton, Knowsley, Liverpool, Sefton, St Helens, Wirral. The Combined Authority works to drive prosperity, encourage innovation and expand opportunities for people and communities across the city region. The CA secured £900m through the first Devolution Deal agreed in 2015, and acts as an Intermediary Body for Liverpool City Region's Structural Fund programme. Additional funding is being attracted to the area as a result of the greater local control over priorities and planning, with investment already being made in transport through the £173m Transforming Cities Fund, jobs and training, as well as £8m to tackle homelessness. The CA oversees the investment of the £500m Strategic Investment Fund and is working to develop a Local Industrial Strategy for the city region.
Sheffield City Region Combined Authority	The Sheffield City Region Mayoral Combined Authority (MCA) is made up of Sheffield, Barnsley, Doncaster and Rotherham as constituent members, plus Bassetlaw, Bolsover, Chesterfield, Derbyshire Dales and North East Derbyshire as non-constituent members, and is chaired by the SCR Mayor, who was elected in 2018. The nine local authorities have been working together since 2008, initially at the SCR Forum, and since 2010 through the SCR Local Enterprise Partnership. The first Devolution Deal was agreed in 2014, and approved by the CA Board in 2016. Growth Deal funding worth £326.9m has been secured for the city region, with £500m of private sector investment levered into the region and 16,000 jobs created through CA supported activity between 2014 and 2017. The MCA shapes policy and leads on decision-making. The strength of existing governance and assurance processes have been recognised through a recent Government audit, which found that SCR had outstanding governance in 4 out of 6 categories. The MCA acts as the accountable body for all funds awarded to the LEP and is an Intermediary Body for SCR's Structural Fund programme.
West Midlands Combined Authority	The West Midlands Combined Authority (WMCA) covers 18 local authorities and four Local Enterprise Partnership areas and is chaired by the West Midlands Mayor, elected in 2017. The seven constituent members are Birmingham, Solihull, Coventry, Dudley, Sandwell, Walsall and Wolverhampton. The Combined Authority has agreed two Devolution Deals with Government (in 2015 and 2017) and has responsibility for an £8bn capital investment programme incorporating £4.4bn HS2 investment, £1.7bn on transport and roads and £1.1bn to support commercial and industrial real estate development. The CA also acts as an Intermediary Body for the Structural Funds in the West Midlands. The WMCA is developing a Local Industrial Strategy and has developed a pan-LEP Strategic Economic Plan.
West of England Combined Authority	The West of England Combined Authority (WECA) includes the three local authority areas of Bath and North East Somerset, Bristol and South Gloucestershire, and is chaired by the WECA Mayor, elected in 2017. WECA has powers previously held by central government, relating to the region's transport, housing, adult education and skills. A WECA Devolution Deal provides £1bn of funding to deliver priority economic infrastructure schemes, adult education, and transport priorities, as well as powers to speed up housing delivery.
North of Tyne Combined Authority	The North of Tyne Combined Authority encompasses the local authority areas of Northumberland, North Tyneside and Newcastle. A Mayor will be elected on 2nd May 2019, and will chair the Combined Authority.

North of Tyne Combined Authority Cont.	In November 2018, a £600m Devolution Deal was agreed, with the funds to be used to deliver the North of Tyne Economic Vision - championing enterprise, developing he leaders of tomorrow, giving everyone the chance to thrive, sparking innovation, developing an improved transport system and digital infrastructure, and developing inspiring places, homes and space. The Combined Authority has developed assurance and governance system to oversee the use of the £600m funding, with a new investment fund being established.
West Yorkshire Combined Authority	The West Yorkshire Combined Authority (WYCA) covers Leeds, Bradford, Wakefield, Calderdale, Kirklees and York, plus the Chair of the Leeds City Region LEP. The Leeds City Region has in place a Growth Deal which will result in £1bn+ of investment in the LCR area, focussed on improving local transport links, accelerating housing growth and town centre regeneration, developing a skilled and flexible workforce, supporting growing businesses and building a resource-efficient City Region, with WYCA acting as a the accountable body for the money, following an approved assurance framework. WYCA acts as an Intermediate Body for the Sustainable Urban Development element of the current Structural Funds programme in LCR.
Nottingham	Nottingham is a city of nearly 330,000 people, with nearly 700,000 in the wider city region. The city is part of the D2N2 Local Enterprise Partnership, which involves 19 local authorities including two cites, two counties and fifteen lower tier authorities. This complex administrative geography has hindered the progress of devolution to Nottingham, with a number of different proposals for a Combined Authority having been considered in recent years. Nottingham acts as the accountable body for a number of cross-LEP ESIF-funded projects, including the D2N2 Growth Hub and projects funded through the Sustainable Urban Development element of the ESIF programme.
Glasgow	Glasgow City Council manages an annual budget of £2.3bn and has a workforce of some 26,000 staff. The Council is responsible for the oversight of significant sums of external funding, with nearly £1bn invested in housing over the past 15 years, and c. £345m of Structural Funds projects undertaken in the city since 2000.
Cardiff	The Cardiff Capital Region City Deal, agreed in 2016, covers Cardiff and the nine surrounding local authority areas, and was agreed with the UK Government and Welsh Government. The Deal provides £1.2bn of funding for improving transport links, increasing skills, helping people into work and giving businesses the support they need to grow. Governance arrangements and an assurance framework put in place to oversee delivery of the Deal include a Cardiff Capital Region Cabinet to pool resources and join up decision-making, and oversee the use of a £1.1bn Investment Fund, ensuring good value for money is secured.
Belfast	In Belfast, the City Council and its Belfast Region City Deal partners have recently signed an agreement with Government which will see £350m of national funding invested in the area over the next 15 years. Taken together with local public funding and private sector investment, this is expected to add up to a £1bn pot for up to 20 projects which will create 20,000 more and better jobs in the area, supporting innovation, productivity and prosperity.

Conclusion

Although there has been considerable change in the economic development landscape over the past three Structural Funds programme periods, the Core Cities have been the one constant factor, providing capacity, skills and expertise in the design, development and delivery of a wide range of projects to stimulate and support inclusive economic growth. More recently, the Core Cities and City Regions have led the way in terms of City, Growth and Devolution Deals working closely with Local Enterprise Partnerships and business groups, and are now developing Local Industrial Strategies in partnership with Government.

The ten Core City Regions have put in place robust plans and delivery capacity over the past three years. The Core City Regions already run major employment and training programmes, lead business growth hubs, and the majority have developed investment funds to support economic growth. There are now established appraisal, assurance and decision-making procedures in place, as well as experienced and senior staff in post to manage and administer major funding streams.

The Core City Regions continue to develop new and more effective local plans, notably around inclusive growth, education and skills, working closely with local organisations including business networks and the community and voluntary sectors. UKSPF investment in the Core City Regions, provided that it is accompanied by greater degree of devolution in terms of strategy setting and decision-making, will allow Government to build on recent investments in the factors of productivity, rebalance the economy and close the productivity gap in the major regional economies.

Building on the Track Record of the Core City Regions

The Core City Regions are central to the successful delivery of the UK Industrial Strategy, and provide a strong link between national sector plans and agreements and local industry specific investment and support. The Core Cities / City Regions offer:

- an appropriate spatial scale
- plans which are responding to local needs
- assets and activities already supporting Local Industrial and Economic Strategies; and
- an integrated, place-based approach to future funding and investment.

The major successes from Core City Regions' **ERDF** investment which relate to strengthening the foundations of productivity include:

- Support for the development of **world-leading innovation facilities** to support the transformation of Core City economies
- Support for the **re-development / creation of new business districts** and city centre improvements,
- The establishment of **Financial Instruments** to support investment in businesses and business locations, in a manner which generates recycled funding which can

be re-invested to maximise impact,

In relation to **ESF** funding, the key benefits have been:

- Using ESF funding to **enhance and add value** to national programmes,
- **Place-based approaches** where funding is focussed on those most in need within a particular community and aligned with investment to support employment creation.
- Providing **wrap-around support** to bring together a number of individual employment support and social inclusion programmes.

Analysis of the 2007-2013 programmes previously undertaken for the Core Cities showed that Structural Funds had created more than 63,000 jobs in the Core Cities and their surrounding city regions / regions, and safeguarded at least 16,800 jobs.

A review of the ESIF Strategies for the England LEP areas for the 2014-2020 programme[10] suggests that the English Core Cities and city regions will:

- Support over 59,000 businesses, over 40% of the c. 140,000 to be supported through England's ERDF programme
- Account for around 40% of the 56,000 jobs to be created in supported businesses
- Reduce greenhouse gas emissions by over 260,000 tonnes
- Support over 400,000 individual beneficiaries with employability support through ESF

The implementation of UKSPF and Local Industrial Strategies will be accelerated through building on the assets and plans of the Core City Regions.

This section of the report has highlighted some of the successful investments supported through Structural Funds in the Core Cities and City Regions, in order to articulate what can be achieved locally, and how this contributes to national priorities. However, it is clear that the process through which local partners have had to work in order to access funding has been challenging and, in some cases, has acted to constrain potentially beneficial investment. The next section considers the limitations of the Structural Fund approach.

10. Where Core City level data is not available, a proportion of the total England target output has been applied

4

Limitations of Structural Fund Approach

"The need to secure match-funding at individual project level places a considerable burden on applicants to develop funding packages, sometimes from multiple sources, each of which has its own requirements, timelines and reporting demands."

Over the three programme periods between 2000 and 2020, the range of activities eligible to be funded through Structural Funds has narrowed and investment available for important aspects of regeneration and infrastructure has been restricted. The limitations of the current Structural Fund programmes through restricted eligibility include:

- Reduced opportunities for land remediation and gap funding for property related investment, with a major impact on advancing new investment in commercial premises and addressing property market failure. The development of new commercial and industrial premises is no longer supported in many areas.

  This has caused particular problems in areas where the commercial property market is weakest, or where expensive remediation work is required before development can go ahead. In some cases it undermines other programme objectives - for example, projects to stimulate business growth can be constrained if there is no suitable space for growing businesses to move into.

- Reduced ability to invest in new transport infrastructure (trams, light rail etc) or in improved transport services, leaving cities facing considerable challenges when trying to facilitate inclusive growth by connecting people to employment created on strategic sites or make it easier for those in surrounding areas to access employment in city centres.

  This reduces the overall effectiveness of programme investment, as jobs created in particular locations are only open to those who have the means to access them, with others (most likely to be young people, people with disabilities and those who are already disadvantaged in the labour market) unintentionally excluded from the benefits of the new employment created. The difficulties in providing on-going support for public transport services makes it more challenging to build up the level of demand that could make services sustainable, as individuals who have the ability to do so, make alternative arrangements to access new employment sites.

- Prescriptive pots of money set aside for activities which do not fit with sub regional priorities and / or are difficult to deliver, resulting in low levels of take-up, a high attrition rate, and slow rates of spend within particular parts of the programme, e.g. supporting the shift towards a low carbon economy.

  Whilst the transition to a low carbon economy is seen as an important priority, there have been challenges in developing projects which both respond to local need and are deliverable within the constraints of the current Structural Fund programme. As one of the newer investment areas, low carbon projects are associated with a higher degree of risk to project sponsors and there are relatively few organisations which are able to accommodate this risk. This has led to slow rates of spend within the low carbon priority, which can be frustrating when resources for other activities for which there are clear levels of demand are constrained.

Other features of the Structural Fund approach also considerably reduce the efficiency and effectiveness of Programmes:

- A lack of alignment between Funds and priorities within the programmes, making it complex and time-consuming to deliver a holistic package of support, e.g. a business support package including innovation support, skills development and marketing activity, or linking employability support directly to the creation of jobs in supported businesses / on strategic employment sites.

- The need to secure match-funding at individual project level places a considerable burden on applicants to develop funding packages, sometimes from multiple sources, each of which has its own requirements, timelines and reporting demands. The need to secure approvals from multiple funders can delay project start dates and reduce the period available for delivery. It also influences project design, with the result that projects are designed to meet match-funding requirements, rather than necessarily in a way that will deliver the greatest impact. A frequently-cited examples is the use of grant funding in business support projects, with projects providing grant funding towards the cost of equipment or consultancy support, and the business contribution providing the match-funding for the project as a whole. A number of consultees expressed concern about whether this was the most effective way to support business growth, or whether more intensive business advisor support would have greater impact.

- The need for approval from the (national) Managing Authorities for projects which have strategic support at City Region level to progress through the application process. This has led to long delays in projects being approved as appraisal staff are re-deployed to tackle specific national priorities. There are numerous examples of the impact such delays have on project delivery, including the impact of missing key dates such as a the start of the academic year, which can mean that project are delayed by a full year, even if approval is granted just a few months later than originally planned. As well as the practical impacts, the need for approval from a central Managing Authority before locally prioritised work can begin leads to feelings of frustration and a lack of control over local delivery.

- Time consuming and over engineered processes, along with onerous monitoring and audit requirements which have led to many local partners disengaging from the Funds and businesses sometimes reluctant to take up the support on offer. The high level of risk associated with not delivering as set out in Grant Funding Agreements e.g. the risk of clawback, has led to some potential applicants avoiding Structural Funds in favour of alternative sources of funding, and reduced the range of partners involved in delivering Structural Funds activity, with smaller organisations and those without specialist expertise being reluctant to get involved.

  Although difficult to quantify, it is clear that significant resources have been diverted from the actual delivery of projects which creates benefits for individuals, businesses and local communities, to the management and administration of project activity which, beyond certain minimum requirements, adds little value. Consultees highlighted examples of projects where as much time is spent on administration as on delivery, or where the administrative burdens were felt to be so onerous that it was not worthwhile going ahead. Considerable time and effort is required to make relatively minor (and eminently sensible) changes to project delivery plans, diverting resource away from potentially more productive uses of time.

- The level of risk aversion amongst programme managers, which, combined with the risk to applicants if projects do not deliver as intended, has led to a lack of innovation in the delivery of Structural Funds programmes, with applicants sticking with 'tried and tested' approaches, even where these might not be as effective as other, newer models. Again this is difficult to quantify, but the sense of repeating previous approaches and sticking to 'safe' delivery models was contrasted unfavourably with a more experimental spirit in previous programme periods.

- Arcane rules, such as limiting land costs on project to less than 10% of total costs, restrictions on income earning projects, and tightly-defined eligibility criteria. In some cases this leads to projects having to be re-designed in order to meet the funding rules (using up considerable management and project development resource); in others it leads to funding being used to tackle the consequences of problems, rather than being more efficiently used to prevent issues arising in the first place.

The narrowing of eligibility rules, the prescriptive allocations of monies to particular pots, and the increasing burden of both the application process and audit requirements, has reduced the effectiveness of Structural Fund interventions and led to important local partners disengaging from the process.

Whilst any funding stream will have rules and regulations, and public funding must always be used carefully and in a way which maximise impact, the end of the Structural Funds programmes in the UK provides an opportunity to do things differently. There is now an opportunity to design a system for the SPF which puts the talents of project managers and administrators to better use, and directs a greater proportion of the resource available to delivering activity, rather than managing and administering it.

5
Addressing the Productivity Gap and Rebalancing the Economy: The Contribution of Core City Regions

"If the performance of our weakest economic regions matched the national average, more people in work earning higher incomes would generate extra tax revenues which could be spent on national priorities, and less would need to be spent on unemployment and health-related benefits."

The UK is one of the most unequal of all the developed economies[11]. Productivity levels per worker in London and the south east are much higher than the national average, whilst in a number of the large regions they are between 10% and 20% below the average. This disparity has a major impact on wages, household incomes and shared prosperity.

The UK 2070 Commission[12] is examining the persistent inequalities between the cities and regions of the nation, looking at imbalances in patterns of investment, wealth, taxation and public expenditure. The Commission has already highlighted that the timescales for successful city and regional development are often very long, citing the time taken to deliver plans relating to the national motorway network, New Towns and the Channel Tunnel.

Whilst devolution is helping the Core Cities and city regions to tackle this inequality, the Commission emphasises the need for a national framework to tackle structural inequalities, and will identify a range of policy interventions which will be needed to tackle the imbalances within the UK economy.

If the performance of our weakest economic regions matched the national average, more people in work earning higher incomes would generate extra tax revenues which could be spent on national priorities, and less would need to be spent on unemployment and health-related benefits.

Addressing this challenge will not be easy and the gap has widened rather than narrowed in recent years. It is therefore vital that the Shared Prosperity Fund, the Government's flagship intervention to support the narrowing of regional inequalities, is properly resourced, correctly targeted and appropriately managed to secure the best possible outcomes for the whole country.

Rebalancing the Economy

Rebalancing the economy is a major priority for Government and the key to significantly increasing UK productivity. The table below sets out how far the Core City regions are behind when compared to the national average for GVA / FTE. Supporting each Core City region to close the gap with the national average would add nearly £70bn to the economy. Previous research for the Core Cities has shown that if the Core Cities were as productive as their international counterparts, an additional £100bn of economic value could be created each year[13].

Around 40% of this productivity gap arises due to deprivation – people in the Core City regions being distant from the labour market, not in employment or training, experiencing poor physical or mental health, or having low level skills which make it difficult for them to find work[14]. This re-emphasises the importance of investment which will build resilience and speed recovery in the economies of our Core City regions, as well as that which will support growth.

11. Perceptions of Regional Inequality and the Geography of Discontent: Insights from the UK, Prof Philip McCann, January 2019.

12. http://uk2070.org.uk/

13. Core Cities UK 2030 Global Success, Local Prosperity, 2018.

14. Core Cities UK 2030 Global Success, Local Prosperity, 2018

UK Regional Economic Imbalance - Core City Regions

	GVA/FTE	GVA/FTE National Gap	Productivity Shortfall
Nottingham City Region	£54,523	-£14,910	-£4.1bn
Sheffield City Region	£54,916	-£14,517	-£9.0bn
North Tyne	£57,380	-£12,053	-£3.6bn
Cardiff City Region	£58,569	-£10,863	-£5.6bn
Leeds City Region	£58,926	-£10,507	£11.9bn
Birmingham City Region	£58,964	-£10,469	-£10.8bn
Greater Manchester	£59,733	-£9,700	-£10.3bn
Liverpool City Region	£60,447	-£8,986	-£4.6bn
Glasgow City Region	£60,887	-£8,546	-£6.1bn
Belfast City Region	£63,012	-£6,421	-£2.5bn
Bristol City Region	£69,671	£238	£0.1bn
Core City Regions inc. Belfast	**£59,734**	**-£9,699**	**-£67.5bn**

Source: ONS GVA data, ekosgen analysis

Growth in Population and Working Age Population

The ten Core Cities are among the largest population centres in the country outside of London. In 2017, the population of the ten Core Cities was 5.6 million, 8.7% of Great Britain's population, while the population of the wider Core City Regions totalled 17.9 million, 27.9% of the Great Britain population.

The core cities have a younger population overall than the country as a whole, 52% of the core cities population are under 35, compared to 43% across Great Britain. In addition, the Core Cities have a greater share of their population which is of working age than the country as a whole (67.3% compared to 62.9%).

While the working age population has grown by just 4.2% across Great Britain, the Core Cities have seen their working age population grow by 10% between 2007 and 2017, reflecting the draw of major cities for working age residents seeking employment opportunities, and the social and cultural offer of the Core Cities.

Looking to the future, the Core Cities are expected to see their total population rise by 11.5% over the next 20 years, compared to growth of 9.2% across Great Britain. The working age population is expected to grow by 6.8% between 2017 and 2037 in the Core Cities while across GB the working age population will grow by just 1.5%, highlighting the importance of the Core Cities to future UK economic growth.

Employment and Growth Success

The Core Cities have an employment base of 3.2m, and this increases to 8.2m for the Core City Regions, 27% of UK employment. Employment growth of between 8% and 9% between 2013 and 2017 matched the national growth rate, while some cities achieved much greater jobs growth.

The 620,000 additional jobs created in the 2013-017 period cover a variety of sectors, and in a number of important economic sectors – computer programming, scientific and technical research and activities – the Core City Regions have comfortably out-performed national growth.

There are 182,000 business in the Core Cities and this increases to 570,000 for the Core City Regions. Although business density remains below the national average, the number of businesses increased by 41% in the Core Cities between 2010 and 2018, and 31% in the Core City Regions, both figures being higher than the national growth rate. For the past eight years, the start-up rates in both Core Cities and Core City Regions have been above the national average.

While strong employment growth is evident, success with regard to increasing productivity is more variable and is highly dependent on growth in high value-added sectors. All but one (Bristol) of the Core City Regions continue to lag behind the average national productivity, and this applies across all sectors of the economy, with a consequent impact on wages and household incomes. Strong employment growth without significant improvement in relative productivity levels suggests that many of the jobs being created in the Core City regions create low levels of value added, and are therefore likely to be relatively low skilled and low paid.

More positively, the Core City regions have invested heavily in creating the conditions for accelerated productivity growth, including major investment through Structural Funds and Local Growth Funds.

Inclusiveness Remains a Challenge
Unemployment in the Core Cities and City Regions has remained consistently higher than the UK average, although the gap has narrowed in recent years. The Core Cities experienced the largest rise in the unemployment rate following the financial crisis in 2007/8, with unemployment remaining at a high level for several years following the crisis, reaching a peak of 12% in 2013 before beginning to fall, reaching a current low of 5%.

While low pay is a key issue for the UK, with the share of jobs that are low paid remaining well above that seen in many other countries in Europe, in 2018, residents' median weekly wages in nine out of ten of the Core Cities were below the UK average. Looking at the lower end of the income scale, residents' weekly wages at the 10th percentile was below the wages of the UK 10th percentile in nine out of ten of the Core Cities.

The Index of Multiple Deprivation (IMD), the most commonly used measure of deprivation, reveals that deprivation is relatively concentrated in the Core Cities. For instance, while the English Core Cities account for 8.1% of LSOA's in England, they account for over a quarter (25.3%) of the top 10% most deprived areas across the country. Similarly the English Core City Regions account for 53.4% of the top 10% most deprived LSOA's in England while they make up 26.7% of LSOAs. Multiple deprivation has remained persistently high, notably in some of the major cities such as

Manchester, Liverpool and Glasgow.

Given the weight of disadvantage, the UK will not make significant progress towards a more inclusive economy and society without addressing the challenges in the Core Cities and Core City Regions, and addressing these challenges is crucial if productivity levels are to be increased.

Investing In Core City Regions: The Productivity Dividend

As noted above, the Core City Regions have the potential to add nearly £70bn to the UK economy if productivity can be improved to match the national average, and £100bn if the cities could match productivity levels amongst their international counterparts. The major productivity gains by value are in Leeds, Birmingham, Manchester and Sheffield City Regions, while the greatest uplift per worker is required in Nottingham, Sheffield and North Tyne.

There are six reasons why significant Shared Prosperity Fund investment in Core City Regions will support the UK's Industrial Strategy:

1. There is a need to invest in the regions outside of London and the South East in order to make full use of the country's economic potential, increase UK productivity and rebalance the economy.

2. Core Cities and Core City Regions have successfully grown their populations, and current forecasts indicate that the majority will see an increase in their working age population, in contrast to a decline nationally, with the potential to provide the skilled workforce needed to support competitive sectors.

3. There has been considerable success in terms of employment growth over the past ten years in the Core City Regions, outperforming the national economy on a number of key indicators, with considerable successes in some of the key sectors driving national economic growth;

4. As set out in Chapter 3, the City Regions have already successfully invested in the five foundations of productivity, supporting world class research and incubation facilities, developing new economic infrastructure and creating business environments to stimulate new investment and sector growth.

5. The City Regions have been leading the way in the UK in delivering initiatives to support inclusive growth, and have used ESF and other training funds to provide targeted support to those most distant from the labour market.

6. Local Authorities, working closely with Local Enterprise Partnerships, have put in place enhanced governance and delivery capacity to take forward Industrial Strategy priorities and skills and inclusive growth plans, based on need and opportunity.

The ten Core Cities are among the largest population centres in the country outside of London, accounting for circa 28% of the UK's population, workforce and output. The Core City Regions, in spite of recent economic and employment growth, account for circa 50% of the total productivity gap across the UK. Shared Prosperity Fund investment in Core City Regions has the potential to produce an economic dividend of £70bn-£100bn as productivity improves, producing higher wages at all levels in the workforce, and contributing to a more inclusive economy across the country.

While a transparent allocation system is required to reflect UK policy, there is an evidence-based case to provide the Core City Regions with circa 50% of the UK Shared Prosperity Fund, considerably higher than their estimated current share of the Structural Funds (circa one third).

6
Developing a Shared Prosperity Fund which meets the Core Cities' Aspirations

"There is an opportunity to move away from the Structural Fund programme approach and its limitations, to more effective arrangements, which take account of how partnerships and policy have changed over the past four years."

Key Factors

The UKSPF will be resourced within the context of the forthcoming spending review and while the starting point in discussions has been providing funding at a level which matches current Structural Fund expenditure, current levels of funding are not an appropriate benchmark for all the Core Cities, with Liverpool and Sheffield having received unfairly low allocations under the 2014-2020 programme. The new fund will have a specific UK remit and financing should be made available in the light of its role in terms of UK policy objectives.

The means by which Shared Prosperity Fund support will be managed and delivered is as important as the finance available. There is an opportunity to move away from the Structural Fund programme approach and its limitations, to more effective arrangements, which take account of how partnerships and policy have changed over the past four years.

The key factors which need to be considered when determining the level of resources to be allocated to the SPF are:

- **UK policy driven:** the major change in moving to the Shared Prosperity Fund is that it will be central to the UK Government's economic plans, whereas Structural Funds were an opportunity for the UK to recycle monies paid into the EU budget, to support regional economic development. There is no need to limit the SPF to previous levels of Structural Fund allocations. There is, therefore, a policy-based argument that SPF, as a UK policy priority, should also incorporate previous levels of public sector match funding set out in the various European Programme. This would in effect, increase the SPF from circa £1bn per annum to £2bn per annum, as a starting point.

- **Larger fund, LIS Enhanced:** With the Shared Prosperity Fund now expected to play a central role in delivering Local Industrial Strategies across the UK, there is a rationale to considerably increase the financial allocation to the new Fund, given the scale of the productivity challenge and the need to rebalance the economy. In part, the need to substantially increase SPF reflects the overall scale of investment through Structural Funds which, though significant, is small when compared to the size of local economies, the drivers and trends which are affecting them, and the scale of opportunities.

- **Seven Year Fund:** SPF should be a seven year Fund, similar to the Structural Fund model, which is widely regarded as the most suitable programming period for economic development investments. Shorter programmes are inefficient, and do not encourage the development of quality proposals, while the regular replacement and re-branding of similar types of initiatives is a source of frustration to practitioners.

These changes will require Government Departments to show a high degree of trust in the ability of local partners to successfully deliver high quality proposals across the country, with the effectiveness of the SPF considerably increased if accompanied by changes to the appraisal system.

Financial Resources
Government also has the opportunity to increase the funding available to the Shared Prosperity Fund, through a major financial enhancement to take account of SPF's role of delivering Local Industrial Strategies. While any enhancement may lead to Departments "ring fencing" monies for particular activities e.g. innovation, any restrictions should be limited to additional monies.

A UKSPF financial allocation set at current SF levels, is estimated at £1bn per annum across the UK. This would result in very limited resources available at a sub-regional level to rebalance the economy, improve productivity and support inclusive growth. The previous level of EU funding available to the UK was not based on either need or opportunity, rather it was the UK's share of EU regional and skills budgets, based on an analysis of the economic challenges facing the 27 Members States. As such, it is not a rational starting point for determining the UK resources needed and available to deliver the objectives set for the Shared Prosperity Fund.

A more realistic level, taking account of UK policy objectives, would be an UKSPF budget of circa £4bn per annum, allowing Local Industrial Strategies to invest in the key areas of ideas, business environment, skills and place / infrastructure.

Structural Fund and SPF Financial Scenarios

EU Structural Funds

Source	Period	UK SF Allocation
EU Structural Fund Allocation (€m)	2000-2006	€15,853m
EU Structural Fund Allocation (€m)	2007-2013	€9,891m
EU Structural Fund Allocation (€m)	2014-2020	€10,795m

Shared Prosperity Fund: Financial Scenarios; Annual Allocations

SPF – SF Value Maintained	2021-	£1,176m
SPF – SF Adjusted (to maintain real value of 2014-2020 SF Allocation)	2021-	£1,354m
SPF – SF Value Maintained + SFUK Match	2021-	£2,245m
SPF Max – LIS Enhanced	2021-	£4,000m

Source: Operational Programmes, ekosgen calculations

These changes would also require Government Departments to show a high degree of trust in local partnerships and could be accompanied by a (temporary) co-delivery model. However the efficiency gains of removing different applications forms, appraisal and eligibility criteria, and decision making timetables and processes would save a considerable amount of unnecessary duplication from the current splintered approach.

Allocating the Shared Prosperity Fund
There is strong support to move to a transparent needs-based allocation system for

the UKSPF. While there are challenges in balancing between need and opportunity in a transparent, indicator-based allocation system, and the outcomes of the range of allocations linked to objectives and statistical criteria are unclear at this stage, there is a compelling case based on Core Cities' track record of ERDF and ESF investment, agreed local strategies, capacity and ambition to allocate a large proportion of the UKSPF to the UK's major city regions.

A needs-based system needs to take into account rebalancing the economy, closing the productivity gap and creating an inclusive economy. Any new allocation system will need to incorporate indicators which reflect these three areas of challenge.

A considerable number of sub-regions have already made the case that there should be no reduction in the current level of SF allocations across the country. It is only possible to combine this aspiration with a needs-based approach if UKSPF has an enhanced level of funding. If UKSPF is introduced with a financial allocation which only matches previous ERDF and ESF levels, it will not be possible to move to a transparent needs-based allocation system which reflects UK policy objectives.

Government will also have to take a view on the appropriateness of allocating relatively modest amounts of monies to invest in the five foundations of productivity to sub-regions where productivity is already high, given the stated focus on rebalancing the economy and narrowing the productivity gap.

Delivering the Shared Prosperity Fund
There is a strong consensus amongst the Core City Regions to learn the lessons from the Structural Fund Programmes and also to take account of other evidence in terms of City Deals and the Local Growth Fund. The key lessons for delivery of SPF include:

National Framework: UKSPF should set a national framework with higher level strategic direction, objectives and priorities. It should not set financial allocations, restrict eligible activities or set targets which are then handed down sub-regionally based on financial allocations.

Outcome Based: ESF and ERDF have been based on outputs, often using crude metrics which are then regionally applied at the project level. UKSPF should move away from activities and outputs as key measures of effectiveness and value for money to the more relevant and substantive outcomes of investment.

Local Strategy Driven: UKSPF should be used to boost and extend local strategies, notably Local Industrial Strategies, City Deals and Combined Authority strategies. There is no need to add another layer of strategy to agreed local plans which have already been developed with and approved by Government.

Single Pot and Flexible: Monies should be provided with as few restrictions as possible. There is no need pre-determine capital and revenue breakdowns, or apply prescriptive allocations by theme, while reduced restrictions on eligible activities would allow UKSPF to support local priorities linked to agreed strategies.

Maximum devolution: Government's default position should be to devolve management and delivery to sub-regional and Core City Region bodies with sufficient capacity, with a co-delivery model used for other areas as a transition to introducing full local delivery. The appropriate geographies for delivery should be locally-determined and local partners should be empowered to differentiate between local, city level and city region level working as appropriate.

Simplified appraisals: Government and partners should agree a simplified appraisal and decision-making system, proportionate to the funding and activities, building on existing local processes where they already exist, and reducing the over-engineering and bureaucracy which has crept into the Structural Fund processes.

The proposed changes set out above would make UKSPF much more efficient and effective than the current EU Structural Fund Programmes. Taking a new approach to management and delivery would place the UKSPF at the centre of Government policy, tackling some of the country's most important economic challenges, rather than as a response to leaving the EU.

While EU Structural Fund programmes were innovative when first introduced, preceding Regional Development Agencies and other sub regional partnerships, the delivery landscape in the UK has changed considerably, with increased capacity now in place to allow Government to fully devolve more aspects of the investment process.

7 Conclusions and Recommendations

"There is an opportunity to establish a long-term fund to deliver sub-regional economic priorities, with a greater share of total national resources secured for the Core Cities, based on a transparent allocation system which responds to needs."

The Opportunity

Shared Prosperity Fund investment in Core City Regions will support the UK Industrial Strategy, making full use of the country's economic potential, with investment increasing UK productivity and helping to rebalance the economy. There is an opportunity to establish a long-term fund to deliver sub-regional economic priorities, with a greater share of total national resources secured for the Core Cities, based on a transparent allocation system which responds to needs.

In order to achieve these ambitious aims, there is a need to properly resource the SPF, and ensure it is designed in a way which helps maximise impact.

Learning from the Structural Fund Experience

The Core City Regions have used Structural Funds to successfully invest in the five foundations of productivity, supporting world class research and incubation facilities, developing new economic infrastructure and creating business environments to stimulate new investment and sector growth. The Core City Regions have also been leading the way in the UK in delivering initiatives to support inclusive growth, and have used ESF and other training funds to provide targeted support to those most distant from the labour market.

Local Authorities, working closely with Local Enterprise Partnerships, have put in place enhanced governance and delivery capacity to take forward Industrial Strategy priorities and skills and inclusive growth plans, based on need and opportunity. These include strengthened delivery capacity set up to take forward the economic plans of Combined Authorities.

Designing a Successful Shared Prosperity Fund

There is a clear view amongst the Core Cities on how best to take forward the UKSPF, learning the lessons of Structural Funds, using existing systems and processes wherever possible rather than inventing new approaches, and building on the economic potential of Core City Regions to deliver to national objectives.

The proposed new arrangements need to be viewed as a package of improvements, rather than a wish list from which Government can cherry pick. These new arrangements are based on a high degree of trust and an understanding that many decisions are best made locally. It is important that the opportunity to do something differently under the SPF is seized, given the frustrations which have built up with the Structural Fund system, and the impact that the over-engineered processes and cumbersome bureaucracy have on the impact of the funding invested.

Approach	Commentary
National Framework	UKSPF should set a national framework with higher level strategic direction, objectives and priorities. It should not set financial allocations or targets which are handed down sub-regionally based on financial allocations.
Outcome Based	Moving away from activities and outputs as key measures to the more relevant substantive outcomes of investment.
Local Strategies	UKSPF should be used to boost and extend local strategies, notably Local Industrial Strategies, City Deals and Combined Authority strategies.
7 year Fund	As the most important financial source for addressing the UK's productivity and inclusive growth challenges, UKSPF needs to move from short term funding to a long term approach, with seven years as the minimum funding period.
Flexible, Single Pot	Monies should be provided with as few restrictions as possible, no restrictions on capital / revenue, or prescriptive allocations by theme, and reduced restrictions on eligible activities e.g. land remediation.
Maximum devolution of management and Delivery	Government's default position should be to devolve management and delivery to sub-regions and Core City Regions with sufficient capacity, with co-delivery used for other areas as a transition to introducing full local delivery.
Simplified appraisals	Government and partners should agree a simplified appraisal and decision making system, proportionate to the funding and activities, reducing the over engineering and bureaucracy which has crept into the process.

These changes need to be set within the context of the role which the Shared Prosperity Fund will play in the UK's economic development. The proposed changes set out above would make UKSPF much more effective and efficient than the current EU Structural Fund Programmes. Taking a new approach to management and delivery would place the UKSPF at the centre of Government policy, tackling some of the country's most important economic challenges.

Resourcing and Allocating the SPF

Government has the opportunity to increase the funding available to the Shared Prosperity Fund, through a major financial enhancement to take account of the role of UKSPF in delivering Local Industrial Strategies. There is no need to be bound to previous Structural Fund allocations and, indeed, current allocations are not an appropriate benchmark given the low allocations made to Sheffield and Liverpool city regions in the current programme. Given the important role which the SPF is expected to play in taking forward the Industrial Strategy, there is a strong case to argue for a much larger Fund than would be achieved merely by replacing the Structural Funds - in the region of £4bn per annum would provide the scale of resource needed to begin the (long-term) process of overcoming regional imbalances and closing the productivity gap which has opened up across the UK.

There is strong support to move to a transparent needs based allocation system for the UKSPF, which take into account rebalancing the economy, closing the productivity gap and creating an inclusive economy. Any new allocation system will need to incorporate indicators which reflect these three areas of challenge – although it should be noted that different cities will benefit more or less, according to the specific mechanisms chosen.

A needs-based system is likely to result in a higher proportion of total funding through the SPF being allocated to the Core City regions, as these offer both the best opportunity to economic growth and have some of the highest levels of need within the UK. However, there is a risk that the status quo provides the least controversial option for the Government and that those who have most to gain from moving to a more transparent and robust allocation have less influence over the design of the mechanism than those who might lose out.

Potential Benefits of SPF

The ten Core Cities are among the largest population centres in the country outside of London, accounting for circa 28% of the UKs population, workforce and output. The Core City Regions, in spite of recent economic and employment growth, account for circa 50% of the regional productivity gap. Significant, locally-driven and long-term Shared Prosperity Fund investment in Core City Regions has the potential to address long-standing issues of below average productivity levels. Over time, if SPF investment can support the Core Cities to close the productivity gap and raise levels of output per full- time equivalent worker to the national average, nearly £70bn additional GVA could be generated within the UK economy. If the Core City Regions could match the productivity levels of their international counterparts, up to £100bn could be generated. This would produce higher wages at all levels in the workforce, and contribute to a more inclusive economy across the country.

Recommendations

The major recommendations emerging from this work are:

1. SPF should use a transparent, needs-based allocation system, linked to the objectives of the Industrial Strategy and reducing economic inequalities between communities. While challenging, any new system should seek to take account of both need and opportunity.

2. The Core Cities should make the case that the UKSPF budget should not be determined by previous levels of Structural Funds and should be significantly increased. As a minimum, UKSPF should be funded at a level of circa £4bn per annum for seven years, reflecting its importance in delivering UK policy objectives.

3. The Core Cities should work to secure Ministerial commitment to moving away from short-term and siloed funding pots linked to the specific agendas of the Departments from which they are originally made available. A more holistic approach is needed, which requires a significant degree of trust in local decision-making.

4. There is a compelling case, based on Core Cities' track record of ERDF and ESF investment, agreed local strategies, capacity and ambition to allocate a large proportion of the UKSPF to the UK's major city regions.

5. The Core Cities must be closely involved in the design of the UK SPF and be involved in all discussions regarding its scale, focus and management and delivery processes. The Government must work with the Core Cities to co-design the SPF, to ensure their expertise in raising productivity, supporting inclusive growth and tackling inequalities between communities informs the Fund.

6. The constant on-off and changing of funding streams and programmes undermines efforts to strengthen local economies. Despite the lack of certainty over the SPF, the Core Cities should begin to develop a portfolio of projects to deliver Local Industrial Strategy priorities, building on investment already made through the Structural Funds.

ekosgen
Manchester Ofice
Chancery Place
50 Brown Street
Manchester M2 2JT

T. 0845 644 3023
manchester@ekosgen.co.uk

Core Cities
c/o Manchester City Council
Level 5, Manchester Town Hall Extension
Lloyd Street,
Manchester M60 2LA. UK

T. 0161 234 5693
info@corecities.com

BELFAST
BIRMINGHAM
BRISTOL
CARDIFF
GLASGOW
LEEDS
LIVERPOOL
MANCHESTER
NEWCASTLE
NOTTINGHAM
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