RURAL SERVICES NETWORK

Towards the UK Shared Prosperity Fund

Developing a prioritisation framework to support the levelling up of rural communities

June 2021

pragmatix advisory

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A report for Rural Services Network

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Disclaimer

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Executive summary

The United Kingdom's exit from the European Union has offered the government an opportunity to design and implement new funding programmes to fit the country's needs.

It has announced a range of new funding mechanisms, such as the Levelling Up Fund, Community Renewal Fund and Towns Fund, to support the economic development of local communities, both for post-covid recovery and to support its 'levelling up' agenda. Next year, it will introduce the Shared Prosperity Fund.

Government funding priorities favouring northern urban locations.

The choice of where to allocate funds has been based on both statistical evidence of need and the strategic judgement of politicians and officials. The metrics used in the geographical prioritisation of the Levelling Up, Community Renewal and Towns funds are a mixture of measures of economic performance and deprivation, and indicators of some of the causes of poor economic outcome. Taken together, the metrics chosen are partial and risk appearing arbitrary. Similarly, there has been a lack of clear and consistent explanation for how ministerial judgement has been applied. The outcome has been funding allocated in greater proportions to northern non-metropolitan urban locations – and away from more rural authorities.

Levelling Up Fund area prioritisation
Local authorities, England, March 2021

Rural and low population density local authorities are less likely to be ranked as a high or medium priority for the Levelling Up Fund than urban and higher density ones.

1- High
2 - Medium
3 - Low

7

*Note: based on April 2021 local authority boundaries. Source: Ministry of Housing, Communities & Local Government

Income deprivation: Comparison of official 'Index of Multiple Deprivation' with living wage data
Local authorities by population density, Great Britain, 2020, per cent

Highest density decile
Decile 9
Decile 8
Decile 7
Decile 6
Decile 5
Decile 4
Decile 3
Decile 2
Lowest density decile

0   5   10   15   20   25   30

■ Jobs below the living wage

■ Share of authorities in top 100 of IMD's income domain

Metrics and ministers miss rural requirements.

Metrics used to prioritise fund allocations often fail to reflect the reality for sparsely populated areas and remote communities.

For example, the income domain numbers from the official Index of Multiple Deprivation are commonly used as an indicator of poverty. They are, however, based on benefit claimant counts and do not directly consider employment incomes. This gives a falsely positive view of rural locations, where poverty is more likely to be the result of low-income employment in insecure, part-time or season occupations – and is less likely to be visible in benefits claims.

Ministerial judgements have, on occasion, adversely impacted the allocation of funds to rural communities. For example, for the Towns Fund, against civil service guidance, ministers set the minimum threshold for the size of settlement that could apply ignoring the scale of and relationship to its hinterland. Rural towns with wide catchments were ruled out in favour of urban centres servicing few beyond their limited boundaries.

Rural households spend around £1,500 more a year on transport than their urban counterparts – but earn less on average.
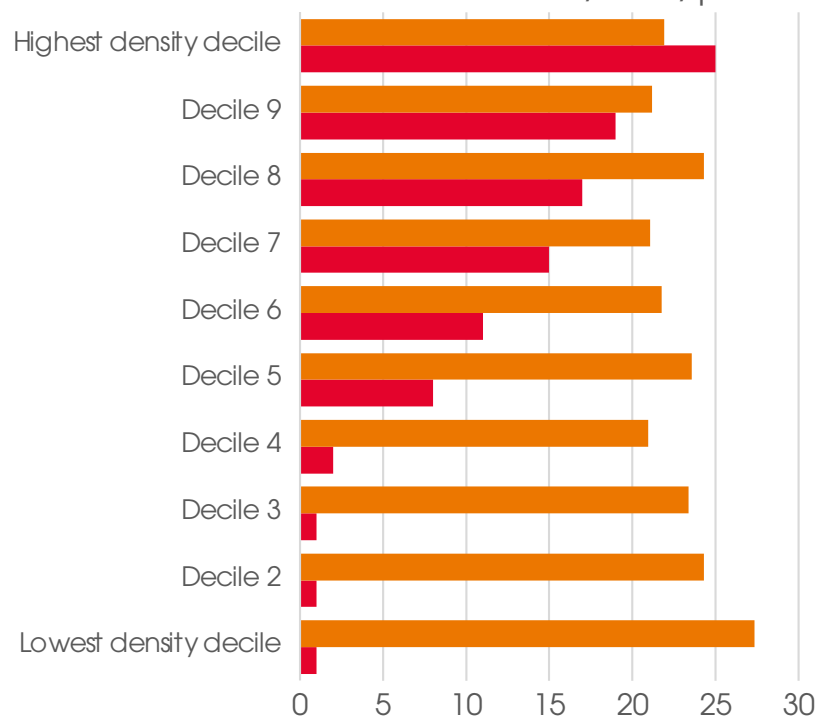
Learning lessons for the Shared Prosperity Fund.

Now that the United Kingdom has left the European Union and the transition period has ended, the government is setting up a Shared Prosperity Fund which aims to "reduce inequalities between communities".

The process for the geographical prioritisation and allocation of the new fund must learn lessons from recent practice. It should be transparent, straightforward and focussed on key economic outcomes. Moving forward, the Shared Prosperity Fund needs a new mechanism with wider acceptability.

Although the causes and implications of poverty and disadvantage are multiple, complex and interrelated, its measurement does not have to be. The use of sophisticated multivariant indicators to assess need, and to target levelling up funds, may give the impression that a wide range of factors are being fairly considered. In practice, they leave the process complicated, confused and open to unintended (and potentially intended) bias.

Focus on real income levels.

We recommend prioritisation based on assessing the standards of living achievable in different locations given local labour market conditions.

An emphasis on identifying and addressing differences in real incomes achievable by households from local jobs provides a sound, logical and clear basis for the Shared Prosperity Fund. Differences in local real household incomes capture the variations in economic performance between locations. They are a direct measurement of poverty, and result from local economic opportunities and (dis)advantages.

If government economic and structural development funds were prioritised and allocated on the basis of local real incomes, there would be a clearer line of sight from the levelling up objective through to action on the ground. And more rural locations, which have had their needs obscured in and been disadvantaged by recent funding rounds, would benefit from a fairer distribution of national funds.

The most rural fifth of England account for only eight per cent of levelling up priority areas.

On a 'real incomes basis', the rural share should be eighteen per cent.

Alternative prioritisation based on real incomes, top 100
Local authorities, England

Priority

Lower priority
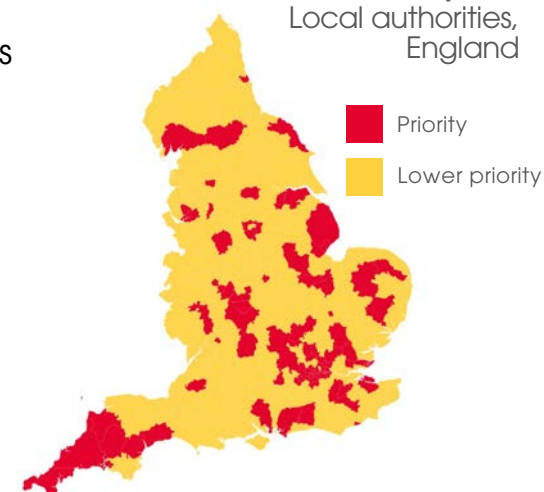
Beyond prioritisation. This report considers which areas should be prioritised for government spending to 'Level Up'. It does not cover how much each priority area should receive. Levels of funding will need to reflect areas' relative need and relative costs of delivery.

June 2021

Funding priorities after Brexit

New regime to replace EU development funds

Exit from the European Union has offered the United Kingdom government an opportunity to design and implement new funding programmes to fit Britain's needs.

It has announced a range of new funding mechanisms to support the economic development of local communities, both for post-covid recovery and to support its 'levelling up' agenda.

For some of these new programmes, such as the Levelling Up Fund, the government has used a priority framework to determine areas most in need of support.

However, some of the metrics used to determine these locations fail to capture the true picture.

As a member of the European Union, the United Kingdom received structural funding worth about £2.1bn per year.

EU funding regions
NUTS Level 2, United Kingdom, 2014 to 2020
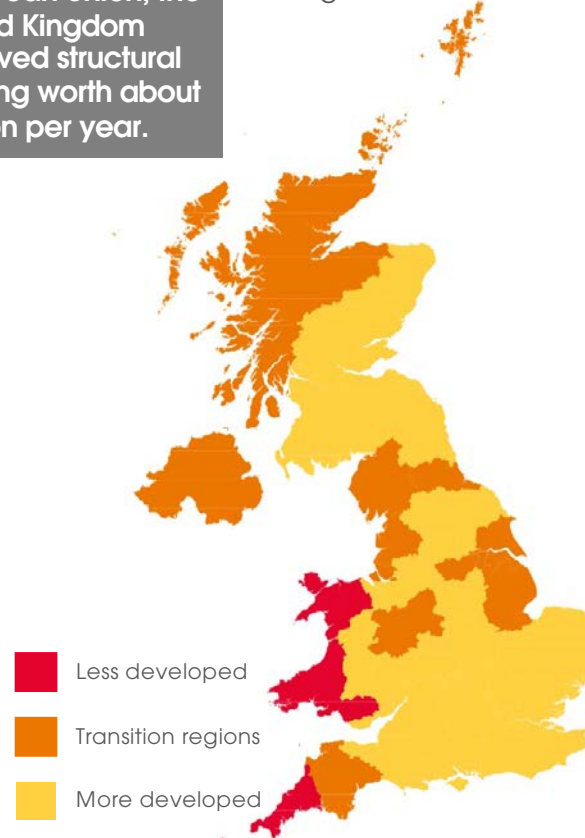
Funding Allocations for ERDF and ESF
Local Enterprise Partnerships, 2014 to 2020, £

Highest award

Lowest award

■ Less developed

■ Transition regions

■ More developed
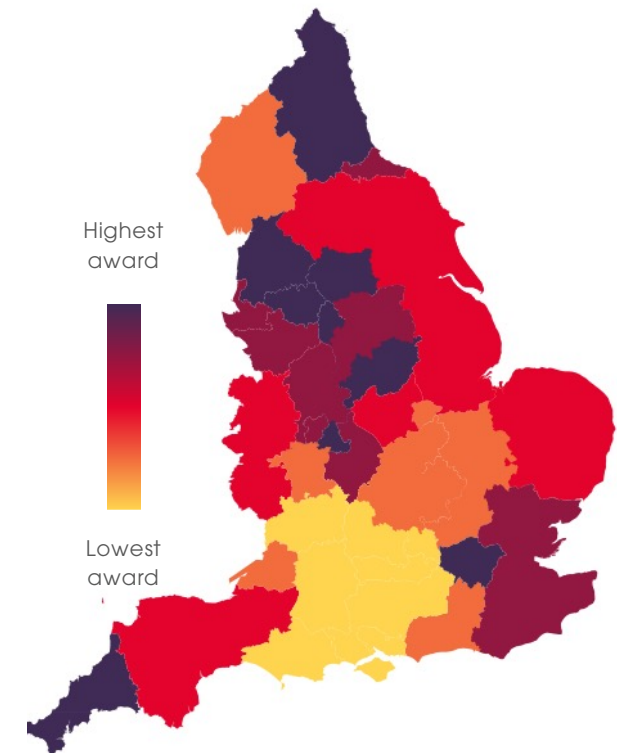
Disparities exist not just between regions, but also within them – something that should be accounted for within the levelling up agenda.

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Budget fleshed out detail for Levelling Up Fund

The Levelling Up Fund was announced at the 2020 Spending Review to tackle economic differences and drive prosperity in 'left behind regions' of the United Kingdom.

The fund will focus on capital investment in local infrastructure, especially those that help bring 'pride to a local area', and follows on from programmes such as the Local Growth Fund and Towns Fund. It looks to prioritise investment that not only brings economic benefits but also helps 'bind communities together'.

The Levelling Up Fund prospectus was published by the Chancellor in March 2021 budget and fleshed out the process for bidding for and allocating money between competing projects across the United Kingdom. (See opposite.)

The assessment process will focus on the following key criteria:

- Characteristics of the place – each local authority will be sorted into category 1, 2 or 3 based on need.

- Deliverability - supplementary finance, management and commercial cases, with bids able to demonstrate investment or on ground in 2021-22 prioritised

- Strategic fit with local and Fund priorities – this should be addressed in the strategic case of submissions and should include support from stakeholders

- Value for money – an economic case should be submitted to explain the benefits of the bid and how it represents value for money

Ministers will have the opportunity to exercise discretion to meet the following additional considerations:

- Ensuring a reasonable thematic split of approved projects (e.g. across regeneration and town centre, transport and culture and heritage);

- Ensuring a fair spread of approved projects across Great Britain;

- Ensuring a fair balance of approved projects across places in need;

- Prioritisation of either 'strategic fit' or 'deliverability' or 'value for money' over the other criteria (noting this must be applied consistently to all projects);

- Taking into account other investment in a local area. In future rounds, this could include funding provided to local areas through the first round of this Fund.

Fund priority areas based on basket of metrics

Prioritisation of English local authorities based on a weighted average of eight metrics.

Local authorities are ranked high (1), medium (2) and low (3) priority based upon a calculation using metrics of economic performance, connectivity and property utilisation. (See opposite.)

The number of local authorities in each category was determined by an index seeking to capture the productivity, unemployment and skills in places across Great Britain. This dictated that 93 local authorities in England be classified as high priority, 108 as medium priority and 113 as low priority.

Levelling Up Fund – target metrics		Indicator (target metric) weight
Indicator 1: Need for economic recovery and growth		**50%**
Productivity	Natural log of GVA per hour worked	(33.3%)
Unemployment	Estimates of unemployment rate in the 16+ population	(33.3%)
Skills	Proportion of the 16-64 population without NVQ qualifications	(33.3%)
Indicator 2: Need for improved transport connectivity		**25%**
Journey time to employment by car	Average journey time to the nearest employment centre of at least 5,000 jobs when travelling by car	(75.2%)
Journey time to employment by public transport	Average journey time to the nearest employment centre of at least 5,000 jobs when travelling by public transport	(21.2%)
Journey time to employment by cycle	Average journey time to the nearest employment centre of at least 5,000 jobs when travelling by cycle	(3.5%)
Indicator 3: Need for regeneration		**25%**
Commercial vacancy rate	Proportion of retail, industrial, office and leisure units that are vacant	(75%)
Dwellings vacancy rate	Proportion of dwellings chargeable for council tax that are classed as long-term empty (empty for more than 6 months)	(25%)

Source: Ministry of Housing, Communities & Local Government

Chosen metrics prioritise northern urban areas

The prioritisation process for the Levelling Up Fund has placed 91 local authorities*, with 33 per cent of England's population, in the highest tier.

A further 106 council areas, with 34 per cent of England's population, are placed in the middle group.
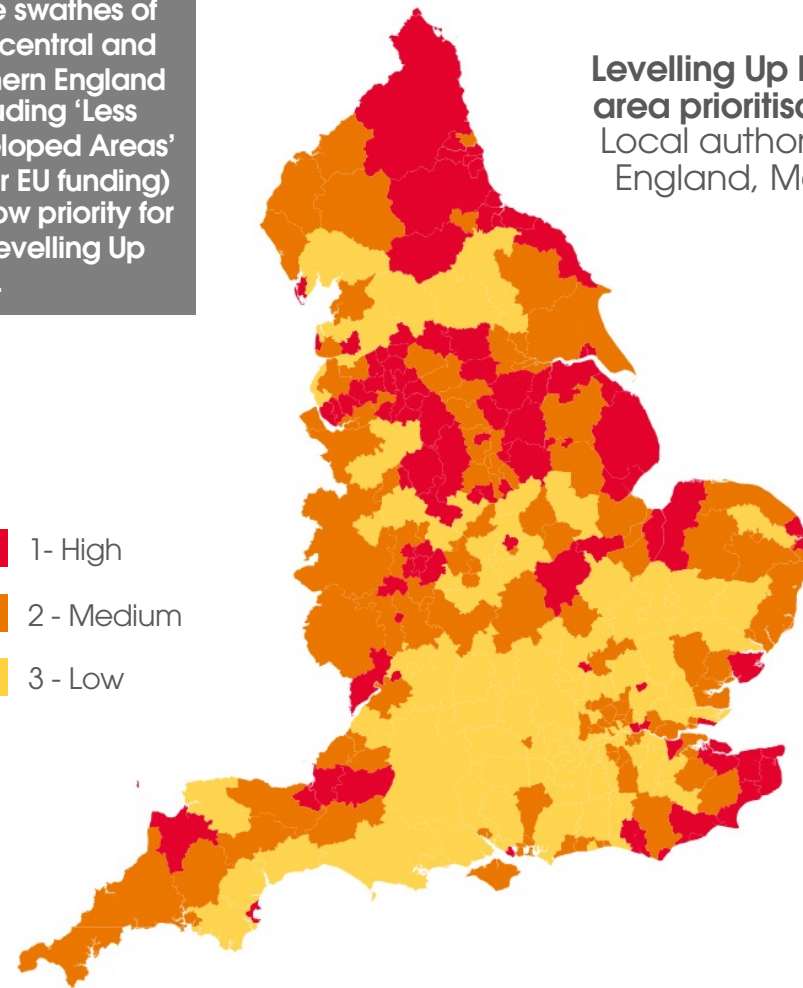
The metrics chosen prioritise locations in the northern regions more frequently than those to the south. Taking together the North East, North West and Yorkshire and the Humber regions, 62 per cent of the population live in high and 28 per cent in the medium priority areas. For the rest of England, the equivalent proportions are 22 and 37 per cent respectively.

The first round of the Levelling Up Fund prioritises bids that can demonstrate investment or begin delivery in the next year - a further issue for smaller, rural authorities with capacity challenges.

Large swathes of rural central and southern England (including 'Less Developed Areas' under EU funding) are low priority for the Levelling Up Fund.

Levelling Up Fund area prioritisation
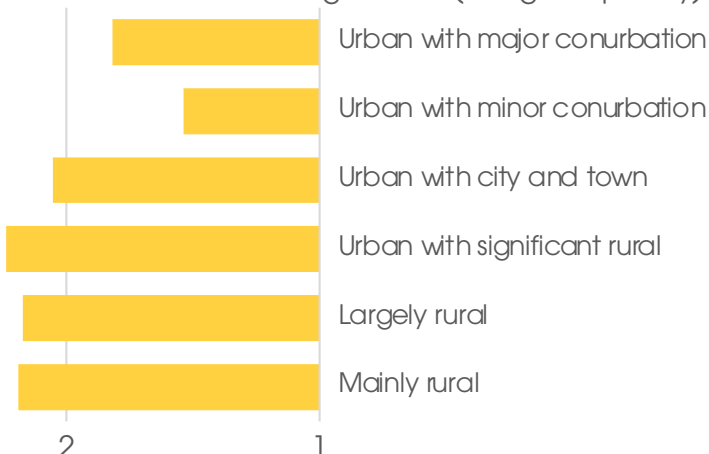Local authorities, England, March 2021

1- High
2 - Medium
3 - Low

*Note: based on April 2021 local authority boundaries. Source: Ministry of Housing, Communities & Local Government

Levelling up Fund prioritisation by rural and urban classification
Local authorities, England, population weighted average, 2021, (1=highest priority)

Rural local authorities are lower priority according to government ranking system

Urban with major conurbation

Urban with minor conurbation

Urban with city and town

Urban with significant rural

Largely rural

Mainly rural

3   2   1

Priority '1' areas by population density decile
Local authorities, England, 2021, per cent

- Lowest density decile
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- Highest density decile
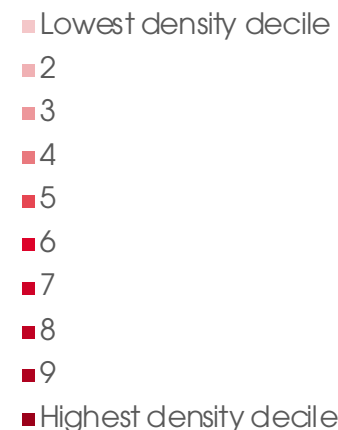
Capacity funding was allocated to all authorities in Scotland and Wales, but only high priority authorities in England
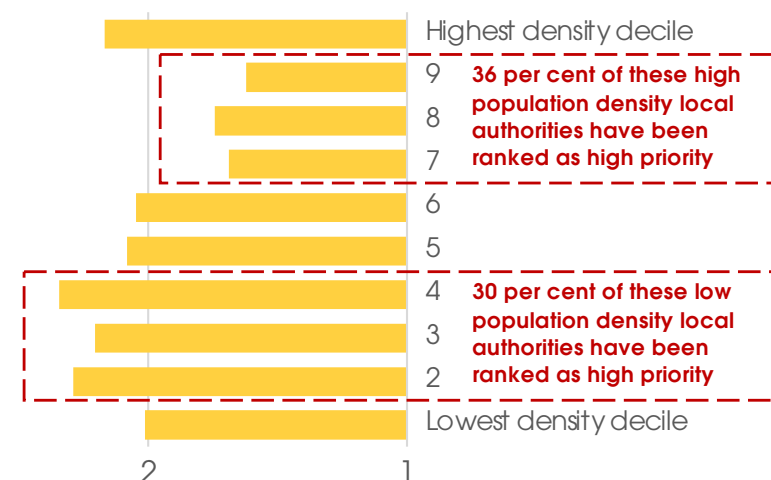
Metrics chosen have disadvantaged rural communities.

The statistics picked to evaluate the Levelling Up Fund prioritisation have favoured non-metropolitan urban locations.

Rural and low population density local authorities are less likely to be ranked as a high or medium priority than urban and higher density ones.

Levelling up Fund prioritisation by population density
Local authorities, England, population weighted average, 2021. (1=highest priority)

Highest density decile

9   *36 per cent of these high*
8   *population density local*
7   *authorities have been ranked as high priority*

6

5

4   *30 per cent of these low*
3   *population density local*
2   *authorities have been ranked as high priority*

Lowest density decile

3   2   1

15

Source: Ministry of Housing, Communities & Local Government

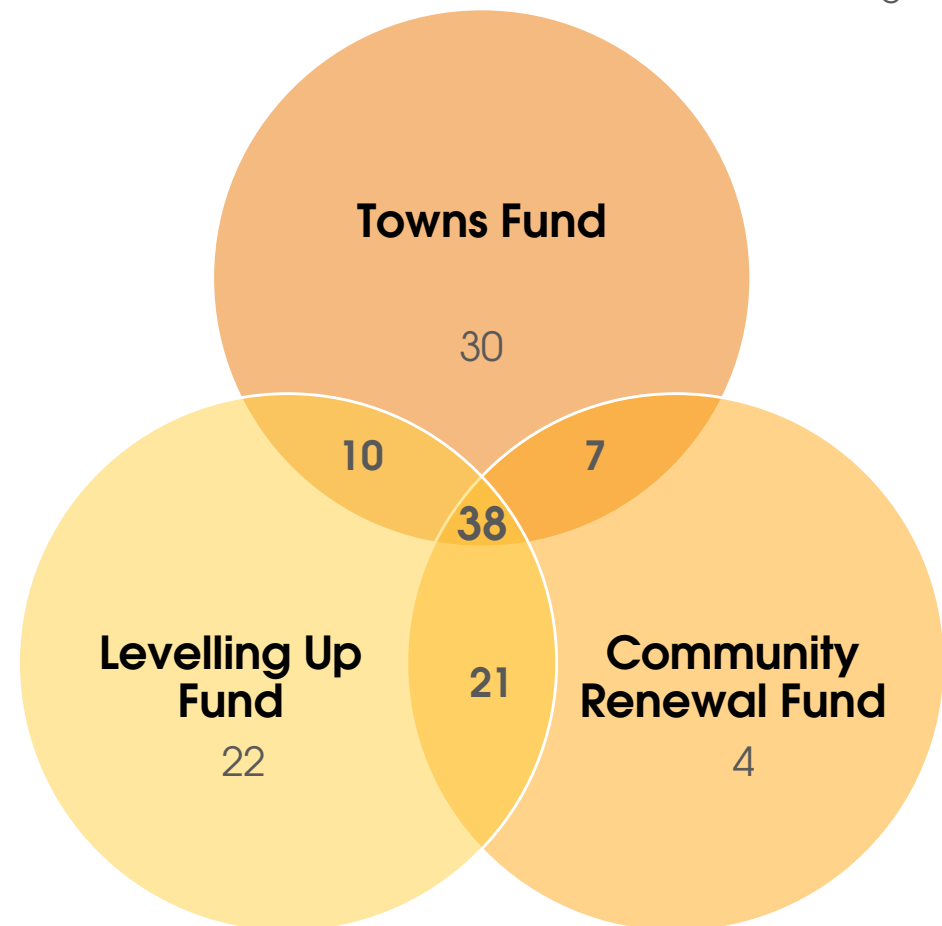# Towns and community funds have own priorities

The Levelling Up Fund captures a range of government initiatives and programmes – some of which have their own prioritisation criteria.

The Towns Fund identified potential recipients by first filtering towns by population, then applying a needs-based regional allocation formula which incorporated Local Enterprise Partnership-level data on productivity, income, skills, deprivation and rural/urban classification.

The Community Renewal Fund will allocate £220 million of investment via a competitive process prioritising projects that target investment in communities in need, especially in its 'top 100 priority places'. These priority authorities come from an index of economic resilience across Great Britain which measures productivity, household income, unemployment, skills and population density.

Although there is some overlap of metrics across the three funds, each combines its own individual set of inputs to determine the most 'in need' areas. (See next slide.)

Comparison of priority places between funds
Local authorities, England

Towns Fund
30
10
7
38
Levelling Up Fund
22
21
Community Renewal Fund
4

Source: Ministry of Housing, Communities & Local Government

'Need' metrics	Towns Fund	Community Renewal Fund	Levelling Up Fund
Income component of the IMD	X		
Proportion of the working-age population with no qualifications	X	X	X
Productivity	X	X	X
Gross value added of sectors identified as 'at risk' by the Bank of England with respect to a "no deal, no transition" EU Exit	X		
Significant economic shocks in the town's recent history	X		
Opportunity for investment signalled by significant current or upcoming private investment	X		
The presence of other government funding or programming with which the Towns Fund could have additionality and synergy	X		
GDHI per head of population		X	
Unemployment rate		X	X
Population density of those aged 16-64		X	
Average journey time to the nearest employment centre of at least 5,000 jobs when travelling by car			X
Average journey time to the nearest employment centre of at least 5,000 jobs when travelling by public transport			X
Average journey time to the nearest employment centre of at least 5,000 jobs when travelling by cycle			X
Proportion of retail, industrial, office and leisure units that are vacant			X
Proportion of dwellings chargeable for council tax that are classed as long-term empty			X

Metrics partially cover causes of disadvantage

For all three funds, the metrics used in the prioritisation process cover both measures of economic outcome and causes of economic disadvantage.

The causal metrics used by funds vary. Some can be useful in giving an overview of the local economy, but can miss underlying issues. Gross Domestic Household Income (GDHI) for example, includes incomes from pensions and income earned outside of the local area.

The Levelling Up Fund considers the number of empty commercial spaces, but does not account for the quality of schools. It also looks at physical connectivity to a major employment centre, but does not take into account digital connectivity like broadband speeds or availability.

Given the many causes of deprivation that could be used to determine if an area is in need of levelling up, the metrics chosen to determine priority lists can only be partial, and risk appearing arbitrary. By choosing to weigh up several different causes of disadvantage instead of focusing on the economic outcome of them all, areas in need risk being missed.

Cause

Income component of the IMD

Gross value added of sectors identified as 'at risk' by the Bank of England with respect to a "no deal, no transition" EU Exit

Significant economic shocks in the town's recent history

Opportunity for investment signalled by significant current or upcoming private investment

The presence of other government funding or programming with which the Towns Fund could have additionality and synergy

Population density of those aged 16-64

Average journey time to the nearest employment centre of at least 5,000 jobs when **travelling** by **car**

Average journey time to the nearest employment centre of at least 5,000 jobs when **travelling** by public transport

Average journey time to the nearest employment centre of at least 5,000 jobs when **travelling** by cycle

Proportion of retail, industrial, office and leisure units that are vacant

Proportion of dwellings chargeable for council tax that are classed as long-term empty

Effect

Proportion of the working-age population with no qualifications

Productivity

GDHI per head of population

Unemployment rate

Current prioritisation of funds is based on complex weighted multiple variable indicators. Although these are detailed and complex, they remain partial, judgemental and, too often, confused.

Funding allocations in practice

# Metrics only part of the funding decision

The allocation of funds to local areas has been based on not only the published prioritisation metrics but also strategic judgements made by officials and politicians.

Ministers have chosen to alter the destination of funds to permit a more equitable spread between and within regions, ensuring funding is available for areas in the north of England.
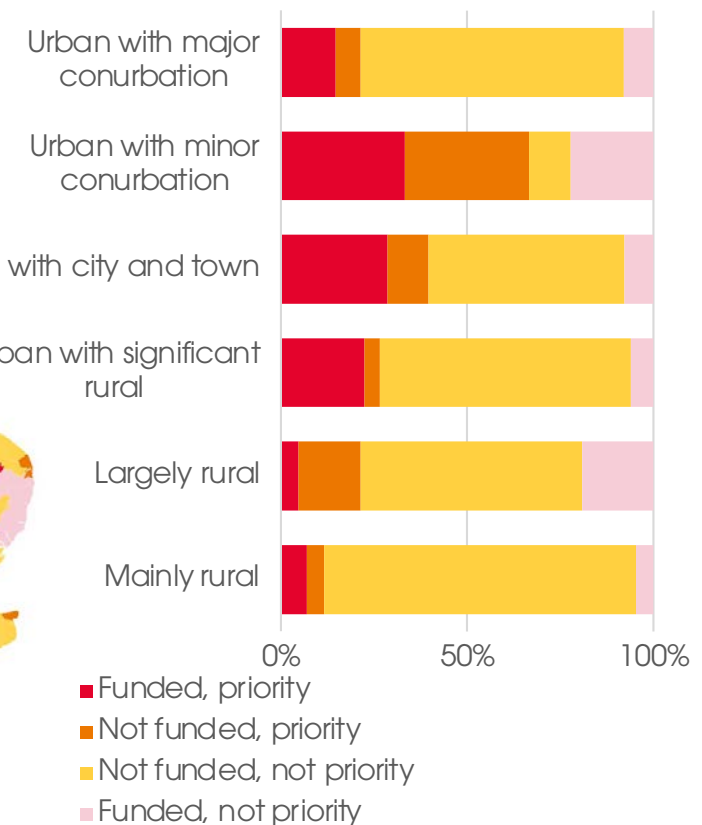
Another reason given for deviating from the priority framework includes the expectation that an area will be impacted by the United Kingdom's exit from the European Union.

For the Towns Fund, for example, there were twelve towns that received funding that were low priorities in the statistical evaluation; two of these, St. Ives and Glastonbury, were in rural authorities.

The Towns Fund saw ministers use their discretion to disregard criteria advising permitting small nearby towns to 'cluster' together, effectively barring rural settlements from selection
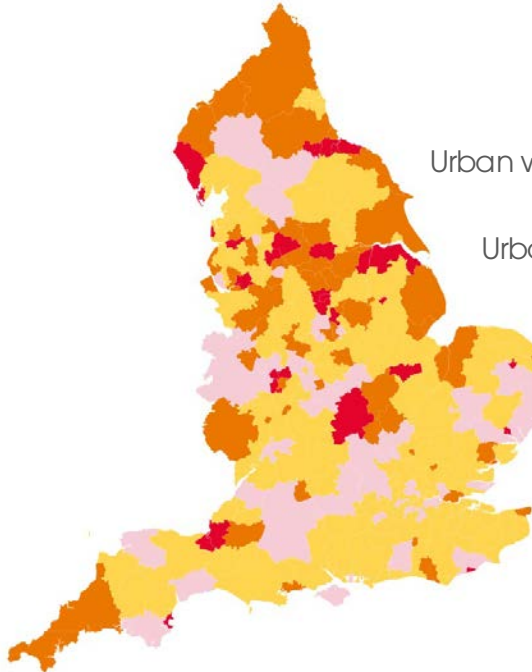
Comparison of areas by prioritisation and funding received for Towns Deals
Local authorities, England. 2020 to 2021

Urban with major conurbation

Urban with minor conurbation

Urban with city and town

Urban with significant rural

Largely rural

Mainly rural

0%   50%   100%

■ Funded, priority
■ Not funded, priority
■ Not funded, not priority
■ Funded, not priority

20

Community Renewal Fund has shortlisted rural areas, but there's little money behind it.

In total, 100 places were selected as priority places for the Community Renewal Fund, 27 of which are in Scotland and Wales.

These authorities will share a modest pilot-scale pot of £220 million.

UK Community Renewal Fund 'Priority Places'
Local authorities, England, number of places per million of population, 2021
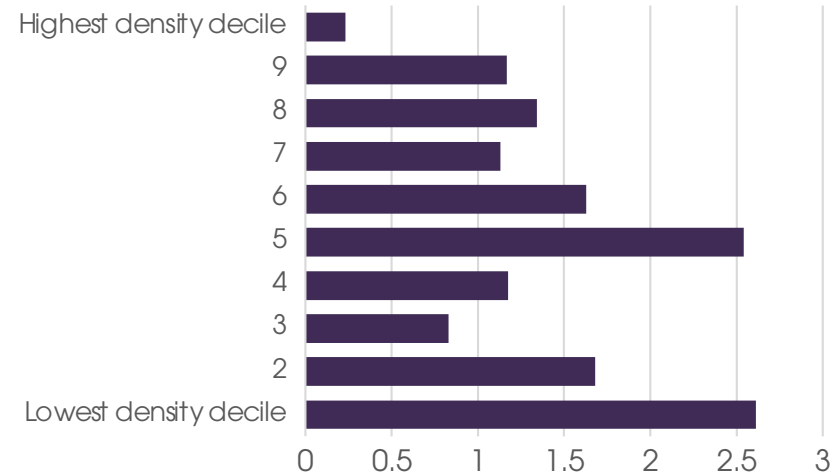
UK Community Renewal Fund 'Priority Places'
Local authorities, England, number of places per million people, 2021
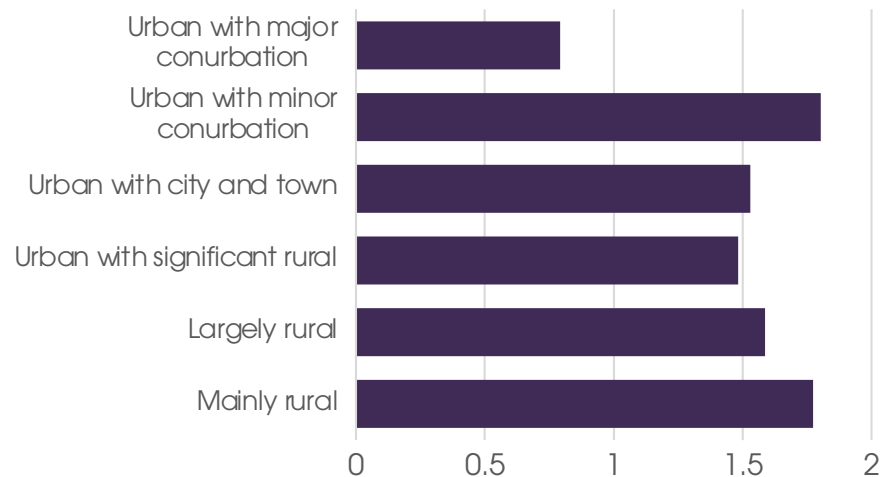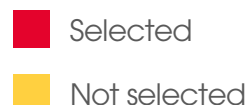

Community Renewal Fund priority places
Local authorities, England, March 2021

Priority
Not priority

21

Source: Ministry of Housing, Communities & Local Government
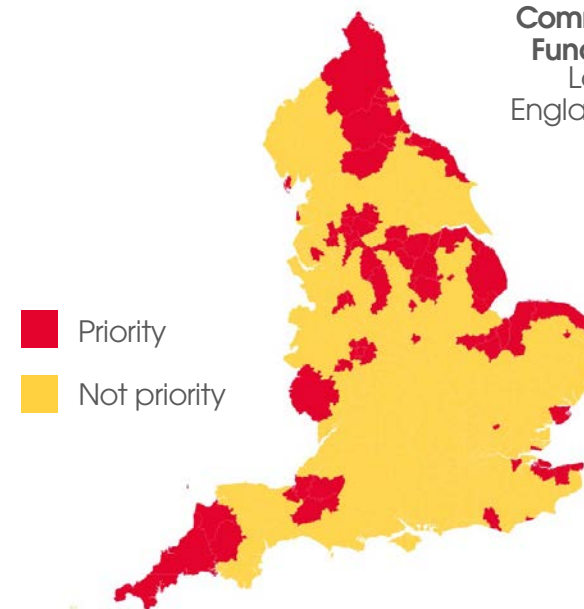
101 areas selected for Town Deals
Local authorities, England, 2019
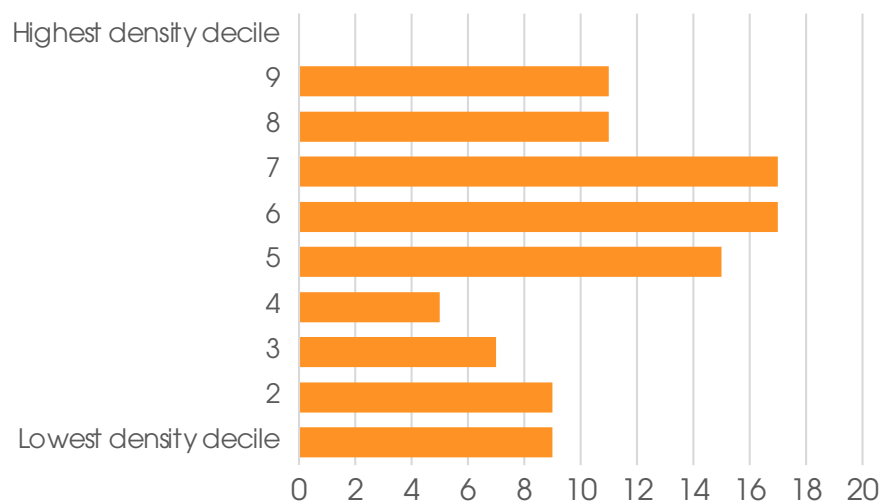

Selected

Not selected

29 local authorities with towns deal places received no funding and 43 local authorities received funding for more towns than were on the priority list or received multiple rounds of funding for one town
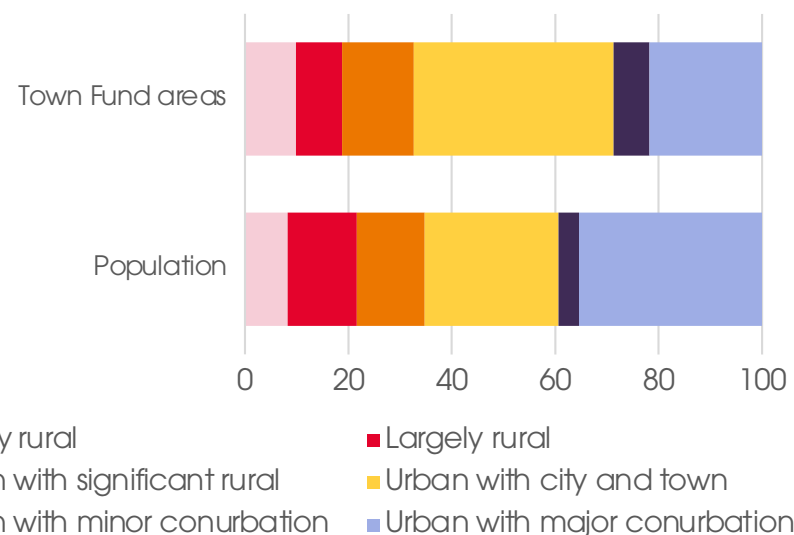
Towns Fund benefited non-met urban.

When considering which towns to invite to bid for Towns deals, the process of narrowing the field from 1,000 to 501 immediately discounted all towns with a population of less than 5,000. To get down to 101 towns, town with a population under 15,000 were excluded from the methodology.
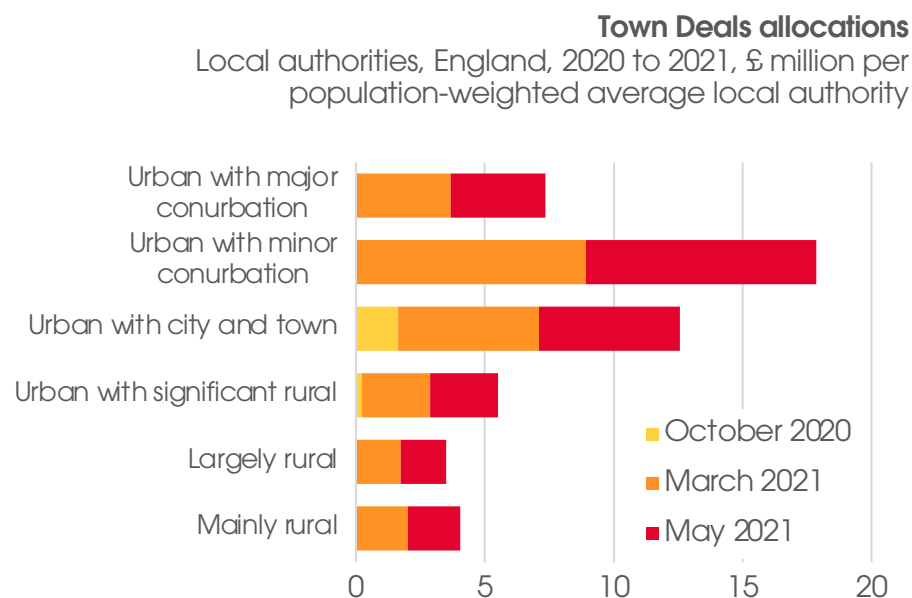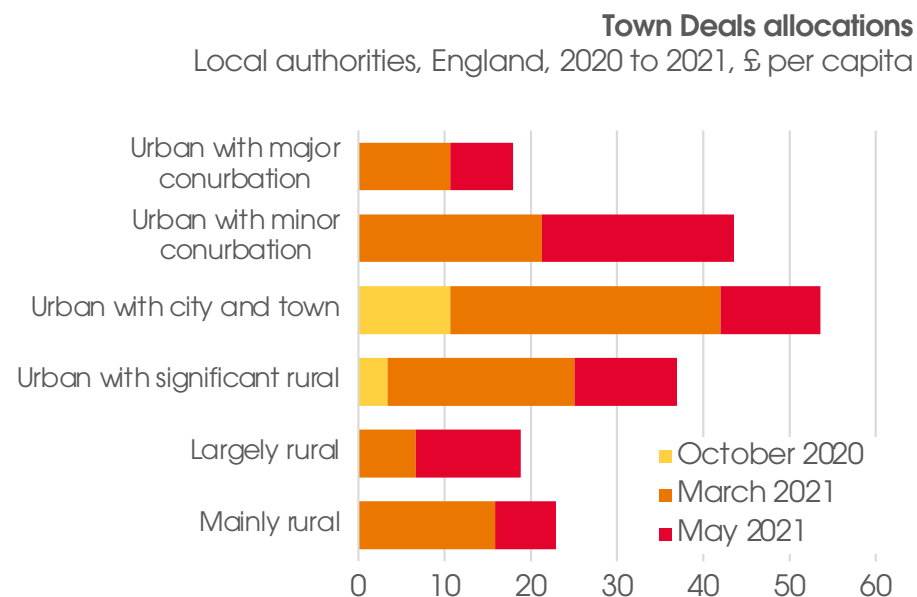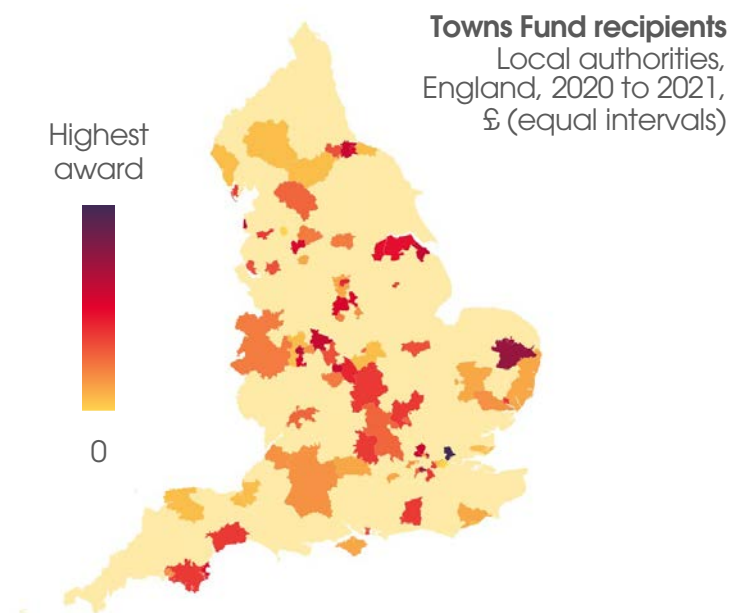
Towns were considered in relation to their size, while ignoring the function to their hinterland - rural towns frequently serve a much wider geographical area than urban ones and provide the same functions as larger towns.

Town Deals areas
Local authorities, England, 2019

Highest density decile
9
8
7
6
5
4
3
2
Lowest density decile

0 2 4 6 8 10 12 14 16 18 20

Town Deals areas
Local authorities, England, 2019, per cent

Town Fund areas

Population

0   20   40   60   80   100

Mainly rural
Largely rural
Urban with significant rural
Urban with city and town
Urban with minor conurbation
Urban with major conurbation

22

Towns Fund recipients
Local authorities, England, 2020 to 2021, £ (equal intervals)

Highest award

0

Town Deals allocations
Local authorities, England, 2020 to 2021, £ per capita

- October 2020
- March 2021
- May 2021

Town Deals allocations
Local authorities, England, 2020 to 2021, £ million per population-weighted average local authority

- October 2020
- March 2021
- May 2021

	Number in group	Number selected	Proportion in group selected
High priority	40	40	100%
Medium priority	318	49	15%
Low priority	183	12	7%

Towns selected by ministers from each priority group to be invited to bid for Town Deals
England, 2020

Source: Ministry of Housing, Communities & Local Government

Future High Streets Fund awards and provisional funding offers
Local authorities, England, December 2020, £ (equal intervals)

Highest value

0

And it's a similar story for Future High Streets funding awards.

Future High Streets Fund allocations
Local authorities, England, December 2020, £ million per population-weighted average local authority

- Urban with major conurbation
- Urban with minor conurbation
- Urban with city and town
- Urban with significant rural
- Largely rural
- Mainly rural

0   2   4   6   8   10

■ Awards   ■ Provisional funding offers

Future High Streets Fund allocations
Local authorities, England, December 2020, per cent

- Value of allocated funding
- Population

0   20   40   60   80   100

■ Mainly rural ■ Largely rural
■ Urban with significant rural ■ Urban with city and town
■ Urban with minor conurbation ■ Urban with major conurbation

24

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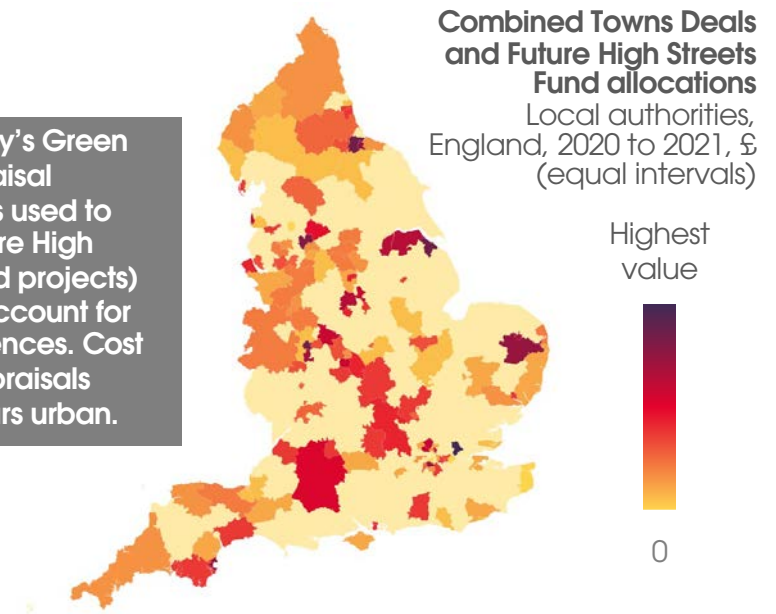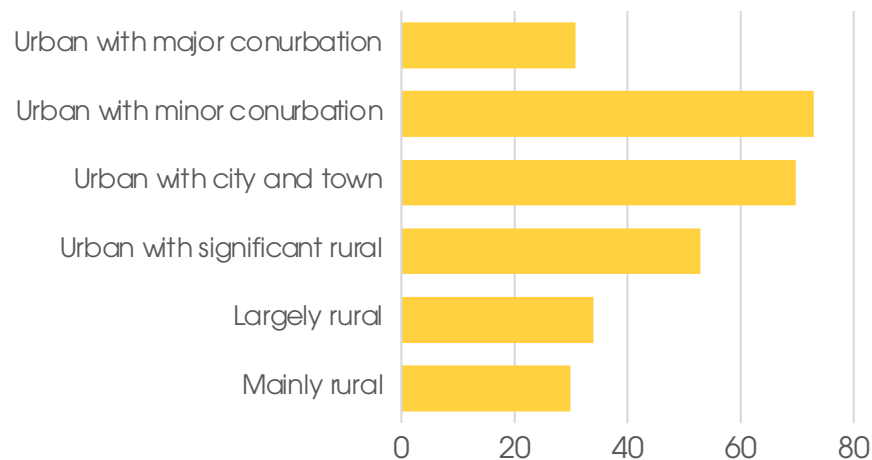Source: Ministry of Housing, Communities & Local Government

Rural areas are losing out. Where data are available, they show actual funding favouring northern non-metropolitan urban locations.

There is a paucity of data available identifying the location of spending via the various economic development and similar funds. Where there is transparency and disclosure, with the Towns Deals and the Future High Streets Fund, rural communities are receiving per head of population only 92 per cent of that received in urban areas.
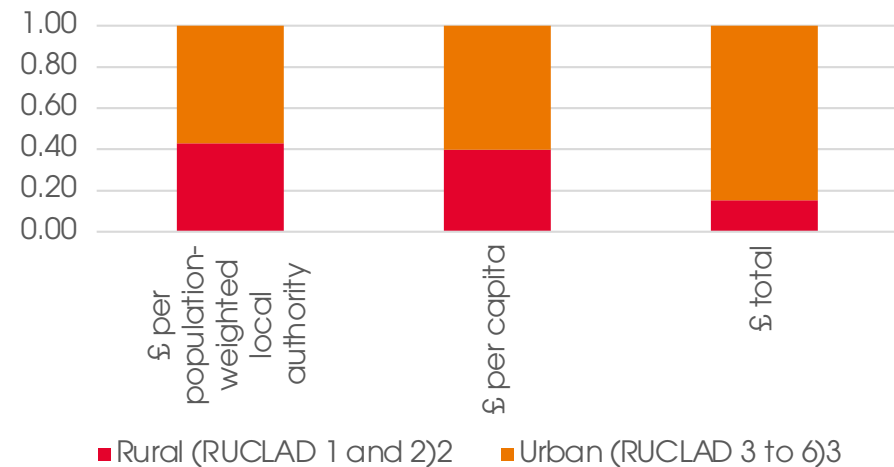
The Treasury's Green Book appraisal process (as used to assess Future High Streets Fund projects) does not account for rural differences. Cost benefit appraisals often favours urban.

Combined Towns Deals and Future High Streets Fund allocations
Local authorities, England, 2020 to 2021, £ (equal intervals)
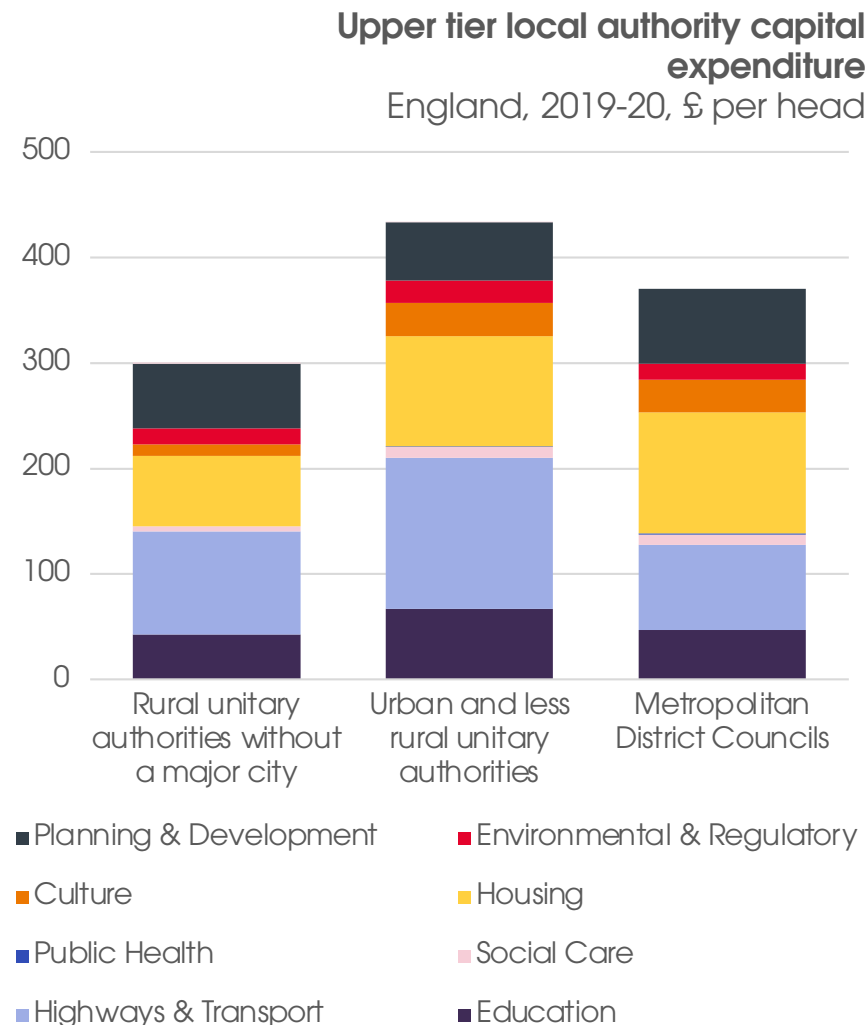

Highest value

0

Combined Towns Deals and Future High Streets Fund 2020-21 allocations
Local authorities, England, £ per capita

- Urban with major conurbation
- Urban with minor conurbation
- Urban with city and town
- Urban with significant rural
- Largely rural
- Mainly rural

0   20   40   60   80

Ratio of combined Towns Deals and Future High Streets Fund allocations
England, 2020 to 2021

1.00
0.80
0.60
0.40
0.20
0.00

£ per population-weighted local authority

£ per capita

£ total

■ Rural (RUCLAD 1 and 2)2   ■ Urban (RUCLAD 3 to 6)3

25

Funding for rural communities

Rural areas have been under-funded generally

Upper tier local authority capital expenditure
England, 2019-20, £ per head

Legend:
- Planning & Development
- Environmental & Regulatory
- Culture
- Housing
- Public Health
- Social Care
- Highways & Transport
- Education

The way in which government allocates spending spatially is placing rural communities at a disadvantage, and failing to unlock the opportunities they can offer to the nation.

Rural areas face the triple whammy of higher costs, lower funding and greater need. Lack of economies of scale mean delivery of services in rural areas will likely cost more than in urban locations. But despite this, public sector spending per head is higher in regions with greater urban populations.

The levelling up agenda provides an opportunity to start to redress the imbalance, It remains unclear on what metrics the success of levelling up will be measured, but whatever are chosen need to properly reflect the nature of rural disadvantage and account for the inherent differences between country and city lives.

Officials must ensure that the criteria for the success of the government's levelling up agenda are specified in a way that makes visible and encourages progress in reducing rural disadvantage. Levelling up must relate to revenue spending core allocations and not just to capital spend if its objectives are to be met.
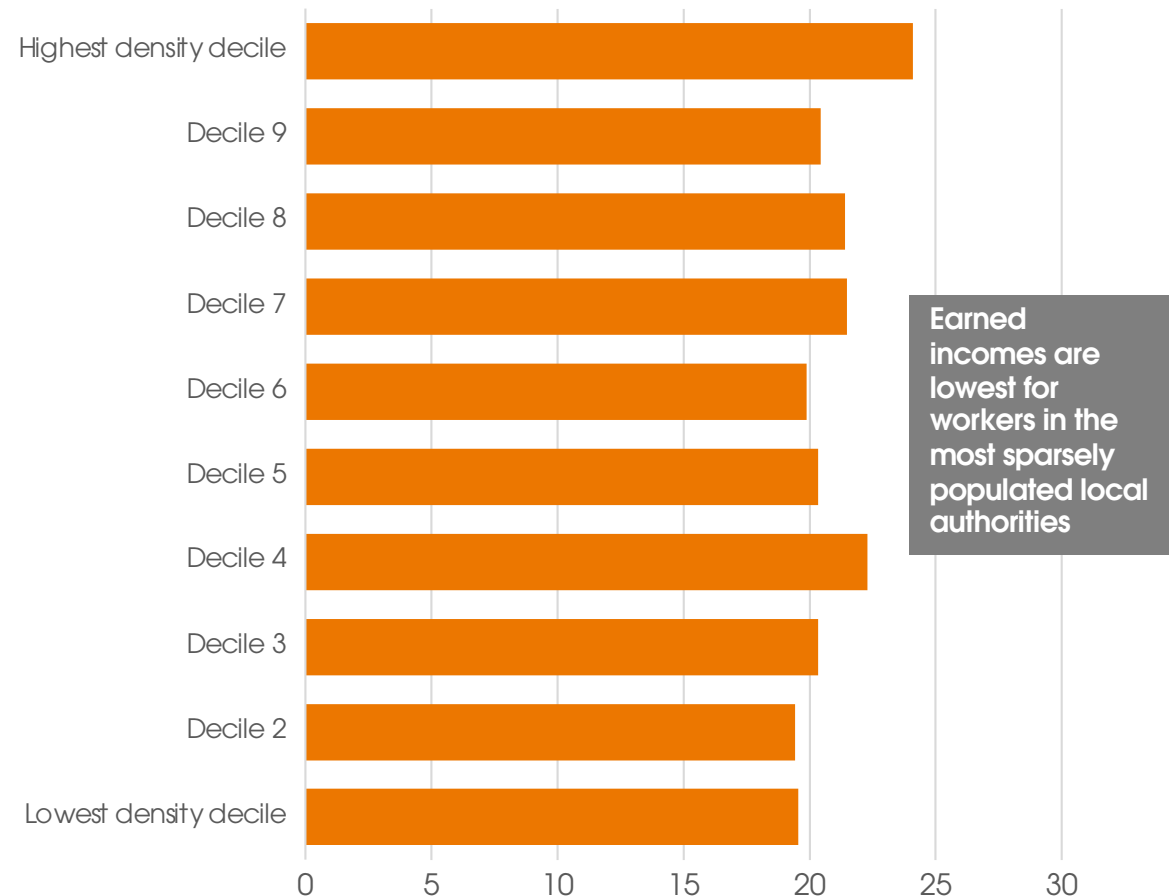
27

Chosen metrics don't reflect rural realities

A focus on economic outcomes would better reflect the needs of communities, especially rural areas requiring levelling up.

Rather than considering a mix of causes and effects, it would be more appropriate for funds that are a part of the levelling up agenda to assess the standards of living achievable in different locations given local labour market conditions.

How much money a household has leftover to spend once all its bills have been paid is a straightforward way to identify poverty.

In rural England, workers have lower earned incomes and higher levels of expenditure – which are not captured by the metrics chosen in the three funds examined previously.

Gross annual pay of employees: second decile
Local authorities, Great Britain, 2020, £ thousand

Earned incomes are lowest for workers in the most sparsely populated local authorities

28

Source: Office for National Statistics

## Official income deprivation measure doesn't consider actual incomes.

The Index of Multiple Deprivation's income domain is based only on measures of the numbers of individuals and households in receipt of benefits. There is no direct assessment of earned income incorporated in the metrics. Indeed, there is no measurement of levels of any kind of income (other than that that can be inferred from benefits eligibility).

It does not account for lower wages or jobs below the living wage, and doesn't factor in household expenditure or differences in the cost of living.

Income deprivation: Comparison of official 'Index of Multiple Deprivation' with living wage data
Local authorities by population density,
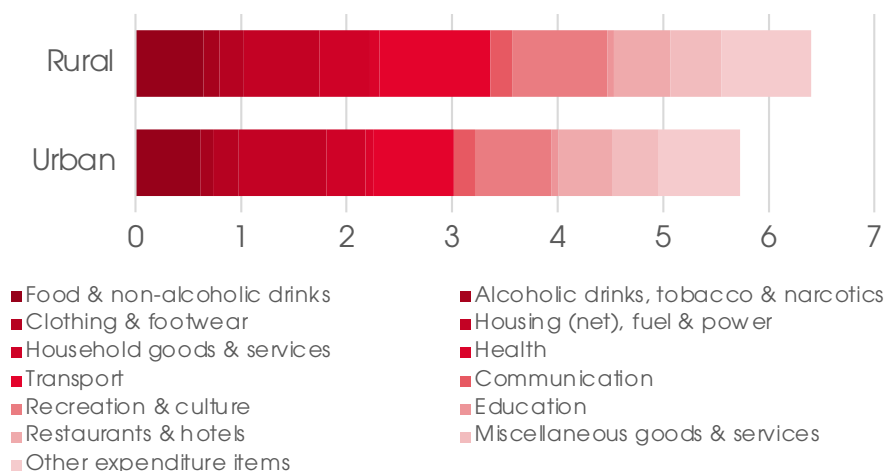Great Britain, 2020, per cent

- Jobs below the living wage
- Share of authorities in top 100 of IMD's income domain

Indicative real discretionary spending power of households in the second income decile
Local authorities, rural and urban classification
England, 2020, £ per week
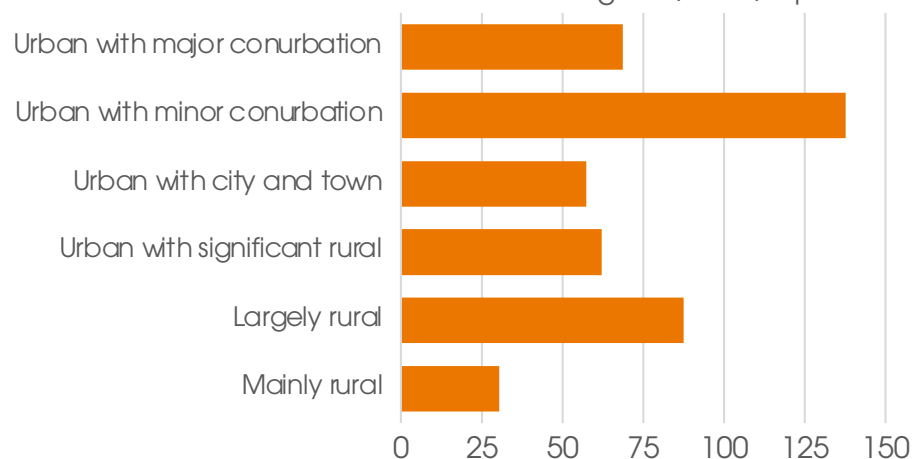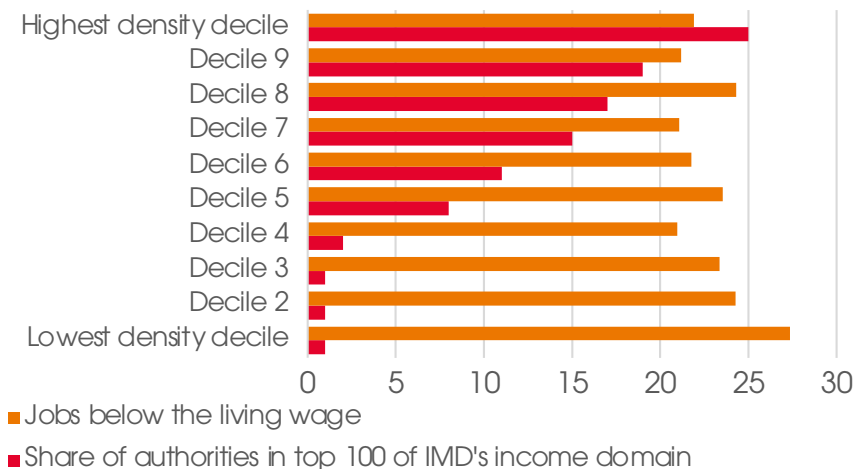
IMD income domain considers:

- Adults and children in income support families

- Income-based Jobseeker's Allowance families or income-based employment and support allowance families

- Pension Credit (guarantee) families

- Child Tax Credit and Working Tax Credit families not already counted

- Universal Credit families where no adult is in 'Working – no requirements' conditionality regime

- Asylum seekers in England in receipt of subsistence support, accommodation support or both

Source: Ministry for Housing, Communities and Local Government and Office for National Statistics (top and bottom right); Pragmatix Advisory calculations from (bottom left)

Average weekly household expenditure
Great Britain, three year average 2018 to 2020, £ hundred

Legend:
- Food & non-alcoholic drinks
- Alcoholic drinks, tobacco & narcotics
- Clothing & footwear
- Housing (net), fuel & power
- Household goods & services
- Health
- Transport
- Communication
- Recreation & culture
- Education
- Restaurants & hotels
- Miscellaneous goods & services
- Other expenditure items

ONS's *Family Spending Workbook* details higher rural household expenditure.

Although urban households spend on average more per week on housing, expenditure on other essentials is higher for those living in rural areas.

Per person, average expenditure is £239 a week in urban areas and £277 in rural, equating to an additional spend of around £2,000 annually.

Office for National Statistics rural/ urban classification: Output Areas (OAs) belonging to settlements with populations of 10,000 or more are classed as urban, while all remaining OAs classed as rural
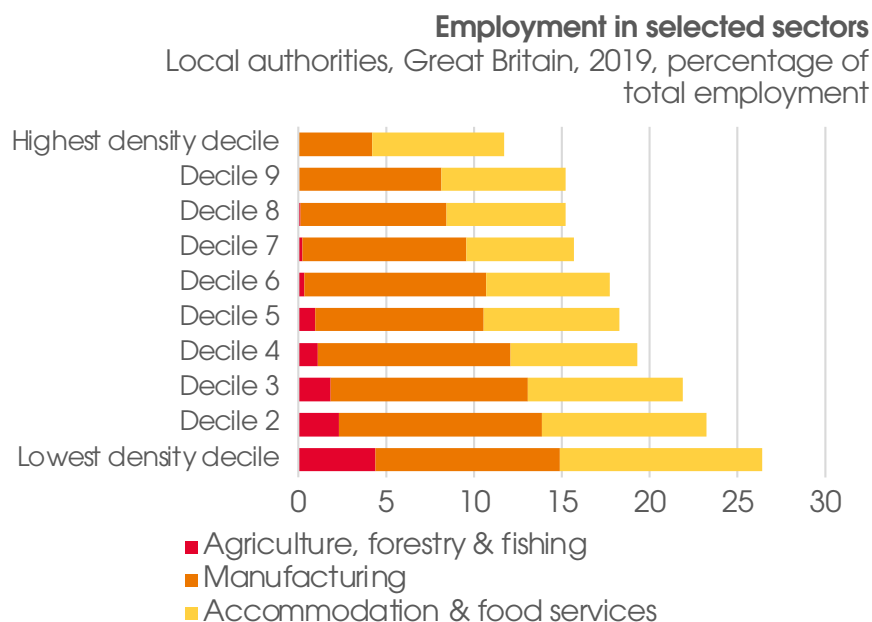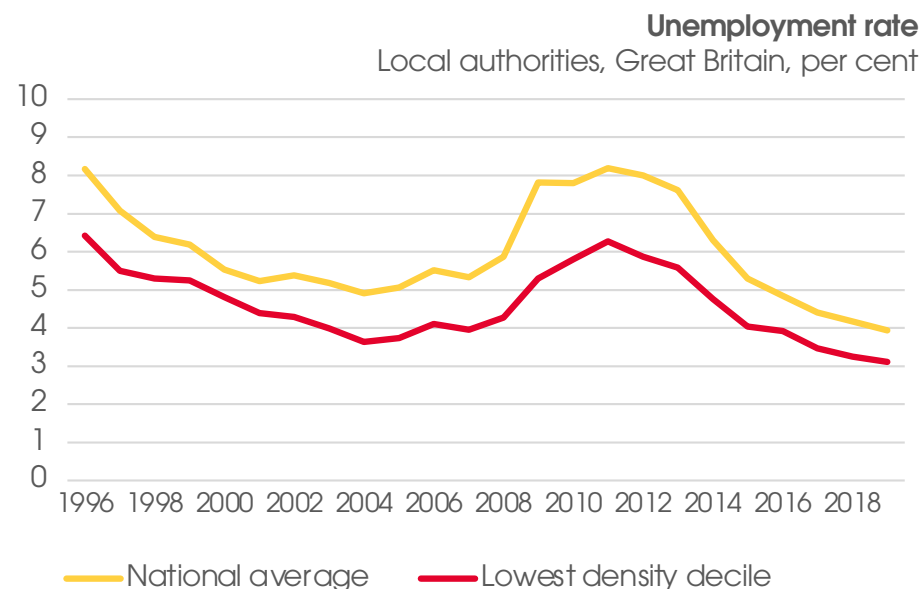
Rural households spend more on transport.

Rural residents see the biggest differential in relation to spending on transport. Those living in sparse locations are likely to face more lengthy (and costly) journeys by public transport to work or education, if transport is available at all.

In areas where there is no reliable transport network, households take on the additional financial cost of purchasing and maintaining one (or more) vehicle(s).

Rural households spend around £1,500 more a year on transport than their urban counterparts – yet earn less on average.

Difference in weekly expenditure by rural households in comparison to urban
Great Britain, three year average, 2018 to 2020, £

Categories (top to bottom):
- Other expenditure items
- Miscellaneous goods & services
- Restaurants & hotels
- Education
- Recreation & culture
- Communication
- Transport
- Health
- Household goods & services
- Housing (net), fuel & power
- Clothing & footwear
- Alcohol, tobacco & narcotics
- Food & soft drinks

30

Source: Office for National Statistics
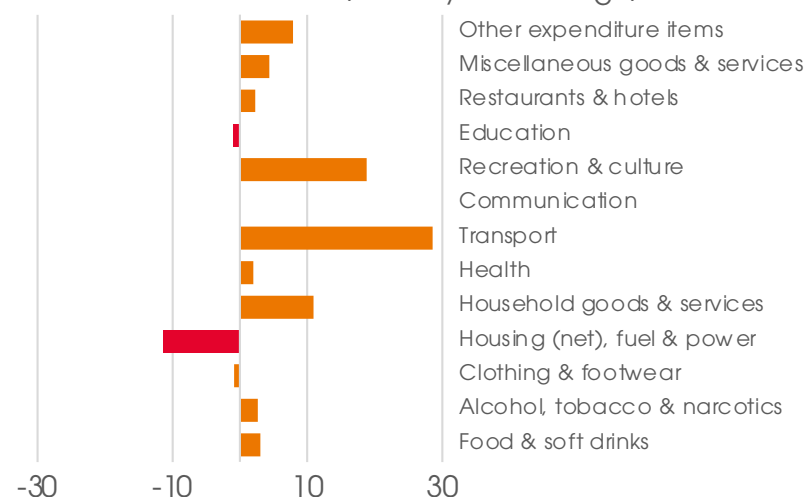
High unemployment isn't the only sign of a weak or insecure jobs market.

While the unemployment rate gives some measure of local employment, it fails to account for quality of local job opportunities.

Hospitality, manufacturing and agriculture are three key rural employment sectors, but almost a quarter of employees in the accommodation and food sector are on zero hours contracts, along with one in ten of those employed in manufacturing. These sectors have high levels of seasonal and casual working.
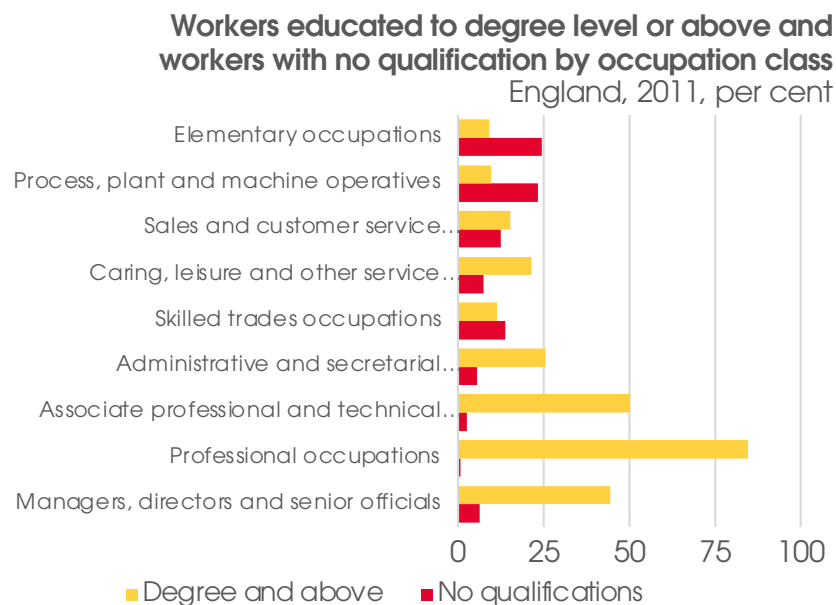
Unemployment rate
Local authorities, Great Britain, per cent

National average Lowest density decile

Employment in selected sectors
Local authorities, Great Britain, 2019, percentage of total employment

■ Agriculture, forestry & fishing
■ Manufacturing
■ Accommodation & food services

Share of employees in quality work*
England, 2018, per cent

31

*Note: quality work on a UK pay basis is defined as employment with satisfactory hours, the desired contract and not low pay. Source: Office for National Statistics

Less chance of high-skilled employment.

The structure of the labour market in rural areas sees a greater share of workers in occupations with lower qualifications.

There is a concentration of jobs in the likes of tourism, hospitality, agriculture and manufacturing. Rural workers do not have the same opportunities for employment in high-skilled sectors as those living in urban areas.
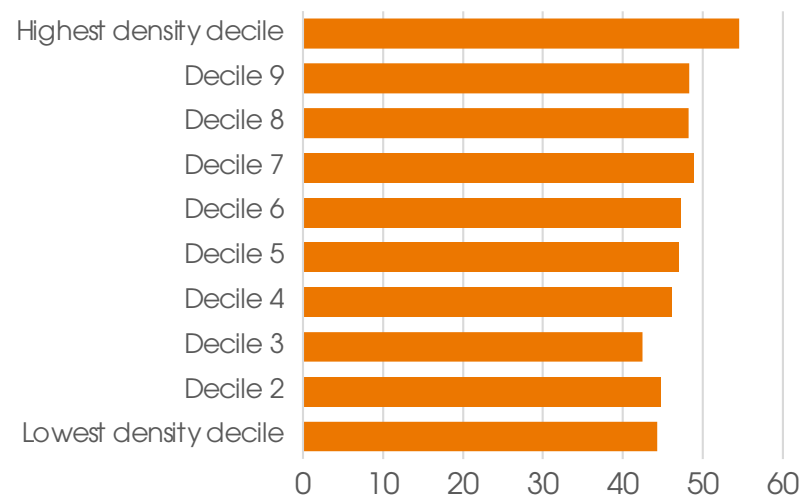
Employees by occupation class
Local authorities, Great Britain, 2020, per cent

A quarter of workers in elementary or process, plant and machine operative occupations have no qualifications

30 per cent of skilled trade workers have fewer than four GCSEs

Outside most sparse third   Most sparse third

Workers educated to degree level or above and workers with no qualification by occupation class
England, 2011, per cent

Degree and above   No qualifications

32

Source: Office for National Statistics

Highest level of qualification
England, 2011, per cent

- Urban with major conurbation
- Urban with minor conurbation
- Urban with city and town
- Urban with significant rural
- Largely rural
- Mainly rural

0 10 20 30 40 50 60 70 80 90 100

- ■ No qualifications
- ■ Apprenticeships or other
- ■ 1 to 4 GCSEs*
- ■ 5+ GCSEs*
- ■ 2+ A Levels*
- ■ Degree and above
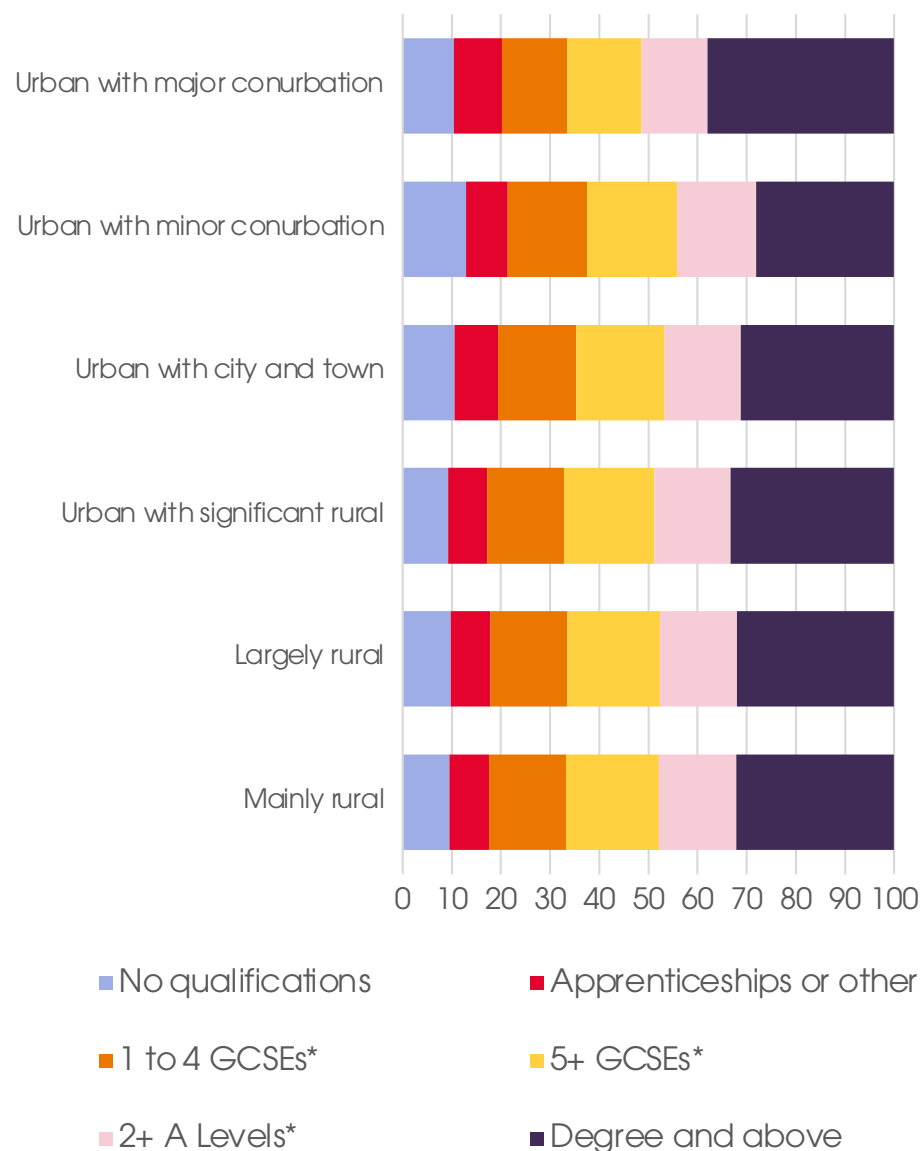
Rate of entry into United Kingdom higher education
Local authorities, England, 2015, per cent

- Highest density decile
- Decile 9
- Decile 8
- Decile 7
- Decile 6
- Decile 5
- Decile 4
- Decile 3
- Decile 2
- Lowest density decile

0 10 20 30 40 50 60

Focus on adults without qualifications misses other education-related challenges.

Adults with no qualifications is a metric used by multiple funds when assessing priority areas. But data show there is not much difference across rural and urban geographies, except for a slightly higher percentage of the population in urban with minor conurbation local authorities having no qualifications.

The proportion of young people going on to higher education is less the more sparsely populated a local authority is. Rural areas also often see the more qualified moving away to urban centres where better paid and higher skilled roles are available.

33

*or equivalent qualification; Source: Office for National Statistics (left); Department of Education (top right)

Towards clear and coherent prioritisation of the Shared Prosperity Fund

Shared Prosperity Fund: Keep it simple

Now that the United Kingdom has left the European Union, the government is setting up a Shared Prosperity Fund to "reduce inequalities between communities".

Although the causes and implications of poverty and disadvantage are multiple, complex and interrelated, its measurement does not have to be.

The use of sophisticated multivariant indicators to assess need, and to target levelling up funds, may give the impression that a wide range of factors are being fairly considered. In practice, they leave the process complicated, confused and open to unintended (and potentially intended) bias.

The complexity of the multiple-variable weighted indicators used in recent prioritisation exercises have left open potential concerns about the clarity of their rationale, choice of metrics and weightings. These theoretical shortcomings have been compounded by the application of political judgement in deciding final funding allocations.

Moving forward, the Shared Prosperity Fund needs a new mechanism with wider acceptability – and with political judgement applied only at the margins for the toughest of cases.

The perfect formula does not exist – and, by trying to resolve the difficulty by adding more metrics and using more weighting systems, the process becomes more tortured and the allocation of public funds more difficult to explain or defend.

Simplicity is essential.

By learning from the experience of the Levelling Up, Towns and Community Renewal funds, a process for prioritising allocations geographically can be devised that is transparent, straightforward and focused on key economic outcomes.

An emphasis on identifying and addressing differences in the standards of living achievable in different locations given local labour market conditions provides a sound, logical and clear basis for the Shared Prosperity Fund. Differences in real household incomes, based on local earnings, capture the variations in economic performance between locations. They are a direct measurement of poverty, and result from local economic opportunities and (dis)advantages.

Modelling to reveal impact of choice of metric

Earnings + benefits

Household spending

Indicative real discretionary spending power

Alternative priority local authorities (indicative)
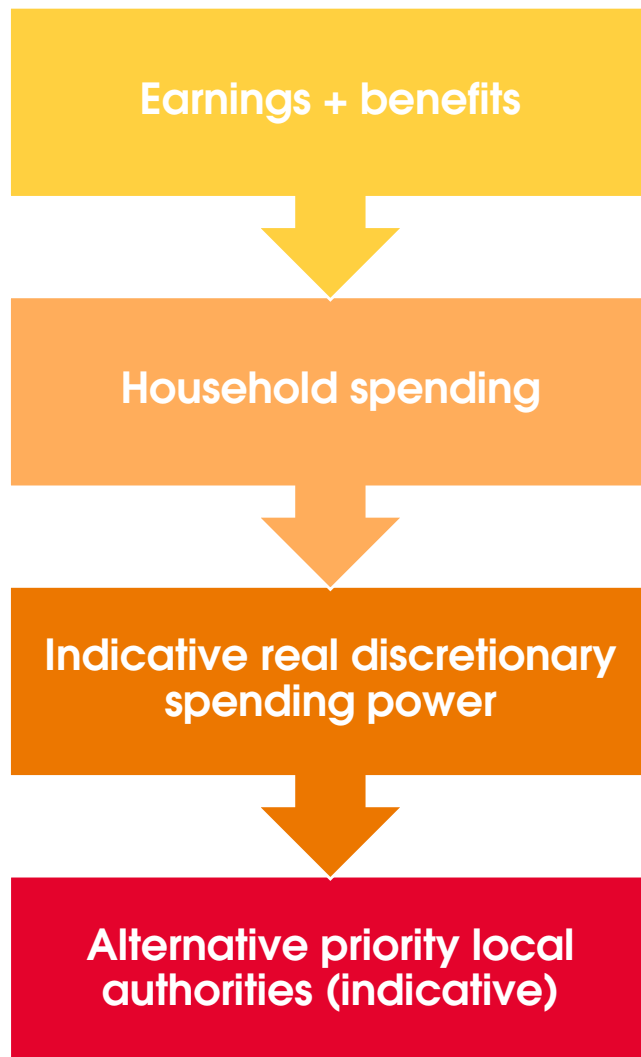
We have conducted indicative modelling of the differences in real household incomes between local authorities to compare a prioritisation based on this metric with those used for recent funds.

We consider two potential objectives: 'alleviating poverty', where we focus on the conditions of the lowest earning fifth of the population in each local authority; and 'improving the averages', where we consider the median.

For a series of different exemplar households (with varying numbers of adults and children, employment patterns and housing), we calculate their levels of discretionary spending power and then weigh up to a 'typical' household. Our incomes data are based on official estimates of local hourly employment earnings by decile plus any Universal Credit receivable (including housing benefit up to the LHA limit) and less any tax and National Insurance due. Housing costs are based on rental values from the Office of National Statistics. Other spending data appropriate for each exemplar household from the Office for National Statistics' family expenditure survey are used as proxy for both costs of living and volumes of goods and services required in different locations.

Using this prioritisation method, we have identified the 100 most deprived local authorities in England for both the 'alleviating poverty' and 'improving the averages' objectives. (See maps on next slide.)

Real incomes prioritisation: poverty alleviation, all regions, top 100
Local authorities, England
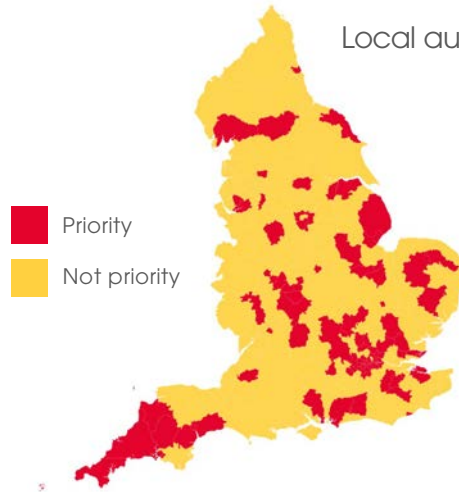
Priority
Not priority

Real incomes prioritisation: poverty alleviation, excluding South East and London, top 100
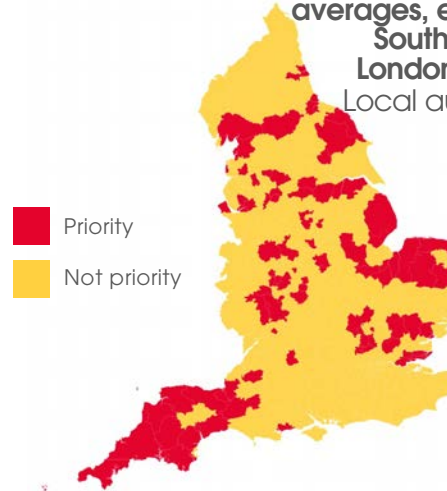Local authorities, England

Priority
Not priority
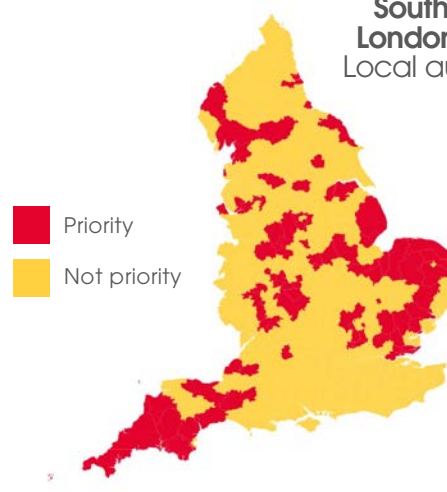
Real incomes prioritisation: poverty alleviation, excluding London, top 10 within each region
Local authorities, England
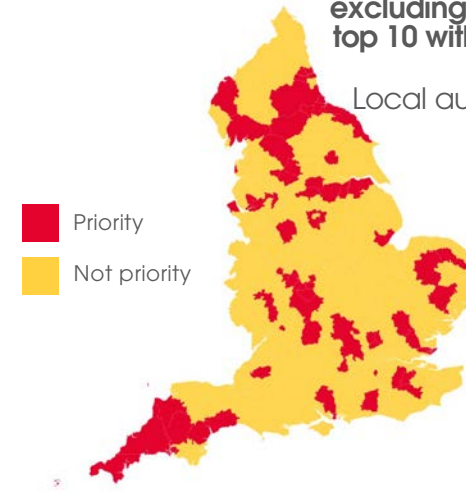
Priority
Not priority

Real incomes prioritisation: improving the averages, all regions, top 100
Local authorities, England
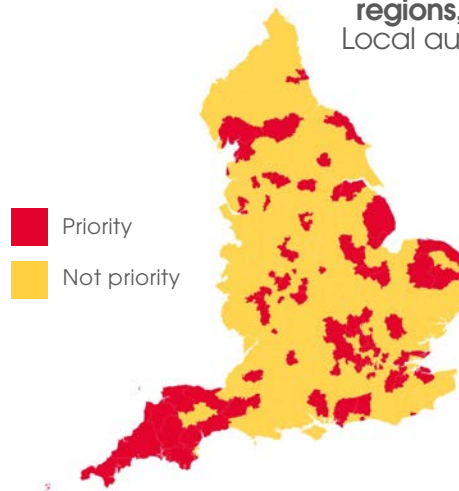
Priority
Not priority

Real incomes prioritisation: improving the averages, excluding South East and London, top 100
Local authorities, England

Priority
Not priority

Real incomes prioritisation: improving the averages, excluding London, top 10 within each region
Local authorities, England

Priority
Not priority

Source: Pragmatix Advisory Alternative Priority Areas Model (PAAPA)
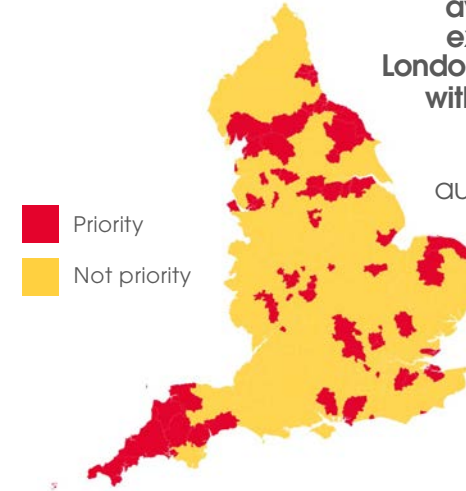
New approach highlights bias against rural

Estimates of the standards of living achievable in different locations provides a better measure of income deprivation.

Using our alternative priority areas model, we derived 100 priority areas by calculating those with the lowest real household discretionary spending – based on local earnings. They were then compared with the 100 local authorities deemed most deprived by the IMD's income metric.

For households with incomes in the second decile, data demonstrates that the IMD income component's focus on benefits fails to capture the real picture for those living in rural areas. Only six mainly or largely rural authorities are represented in the top 100 by the IMD's scoring, compared to 27 using the alternative income framework.

Government prioritisation fails to reflect scale of low income households in rural areas.

Whether targeting poverty alleviation for those on the lowest incomes, or improving the economic outlook of the average household, our new approach shows rural authorities are underrepresented on the Levelling Up Fund's high priority list (See next two slides.)

Top 100 priority authorities to alleviate poverty and the 100 most deprived authorities by IMD's income metric

Local authorities, population density, England, 2020
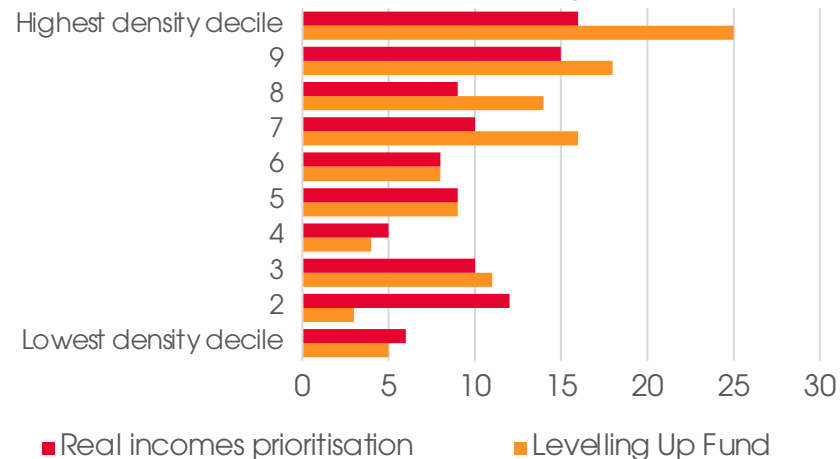
■ Real incomes prioritisation   ■ IMD

38

Real incomes prioritisation: poverty alleviation, all regions and local authorities scoring 'high' on Levelling Up funding criteria
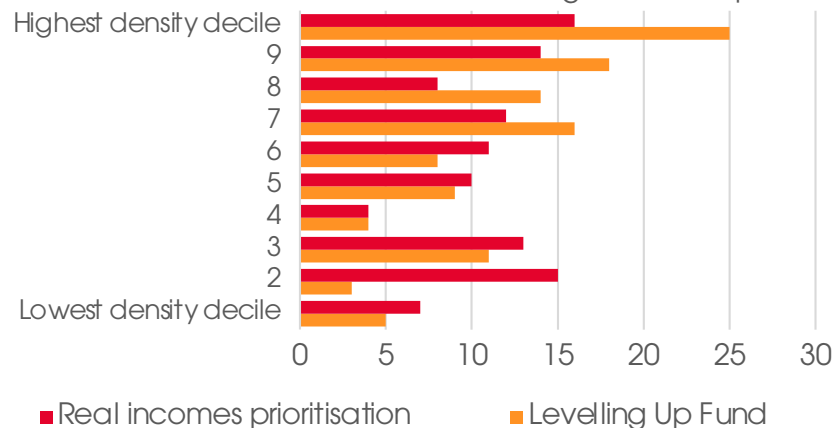Local authorities, England, 2020, per cent

Real incomes prioritisation: improving the averages, all regions and local authorities scoring 'high' on Levelling Up funding criteria
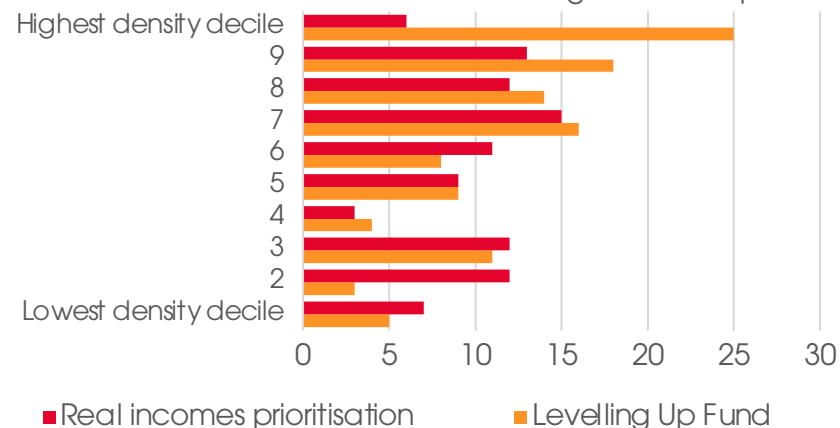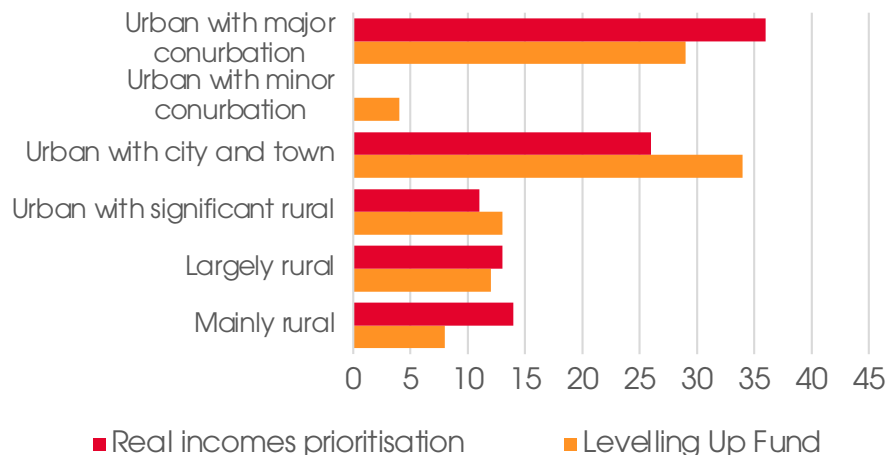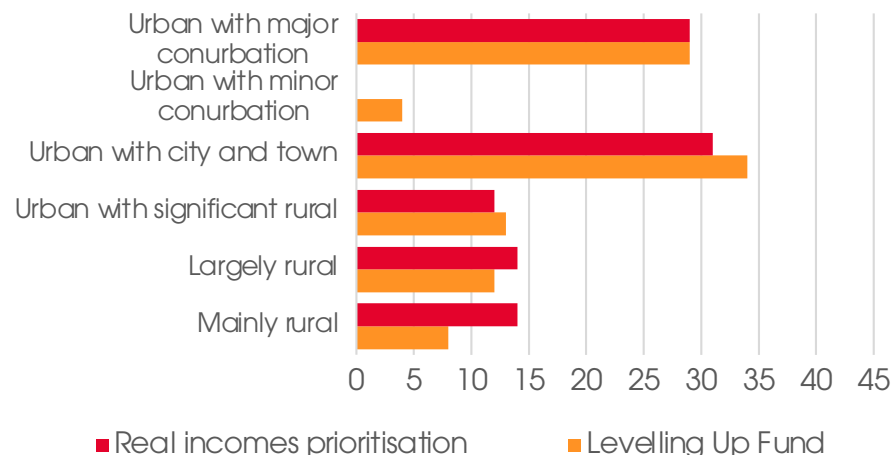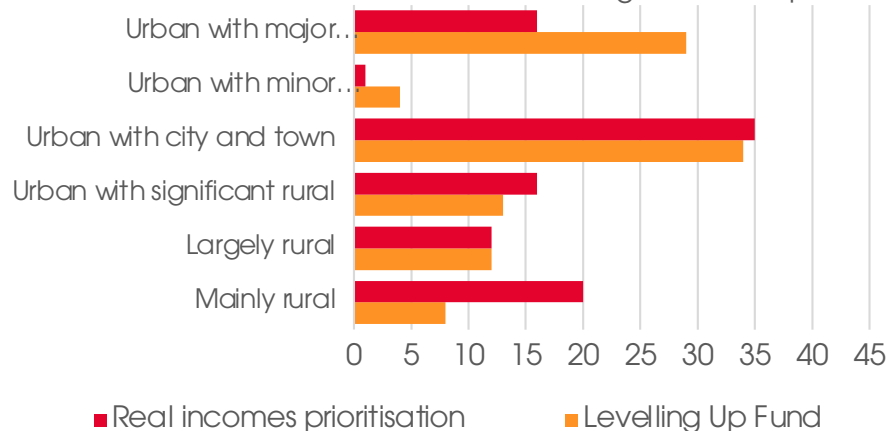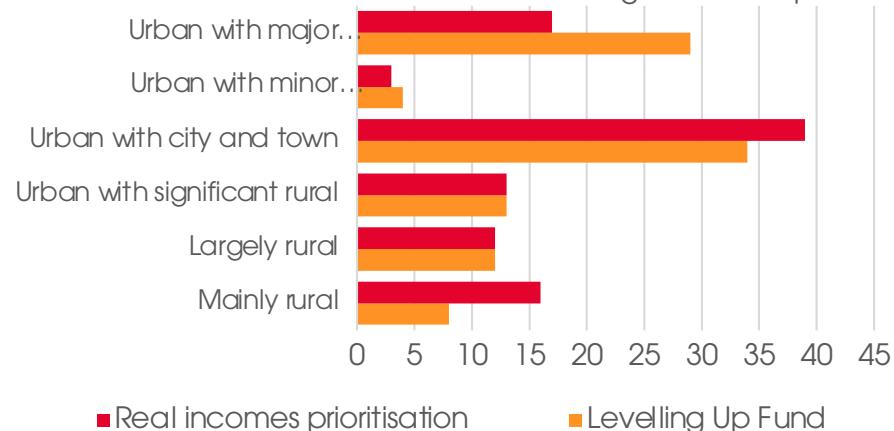Local authorities, England, 2020, per cent

Real incomes prioritisation: poverty alleviation, excluding South East and London and local authorities scoring 'high' on Levelling Up funding criteria
Local authorities, England, 2020, per cent

Real incomes prioritisation: improving the averages, excluding South East and London and local authorities scoring 'high' on Levelling Up funding criteria
Local authorities, England, 2020, per cent

■ Real incomes prioritisation ■ Levelling Up Fund

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Source: HM Treasury; Pragmatix Advisory Alternative Priority Areas Model (PAAPA)

Real incomes prioritisation: poverty alleviation, all regions and local authorities scoring 'high' on Levelling Up funding criteria
Local authorities, England, 2020, per cent

Real incomes prioritisation: improving the averages, all regions and local authorities scoring 'high' on Levelling Up funding criteria
Local authorities, England, 2020, per cent

Real incomes prioritisation: poverty alleviation, excluding South East and London and local authorities scoring 'high' on Levelling Up funding criteria
Local authorities, England, 2020, per cent

Real incomes prioritisation: improving the averages, excluding South East and London and local authorities scoring 'high' on Levelling Up funding criteria
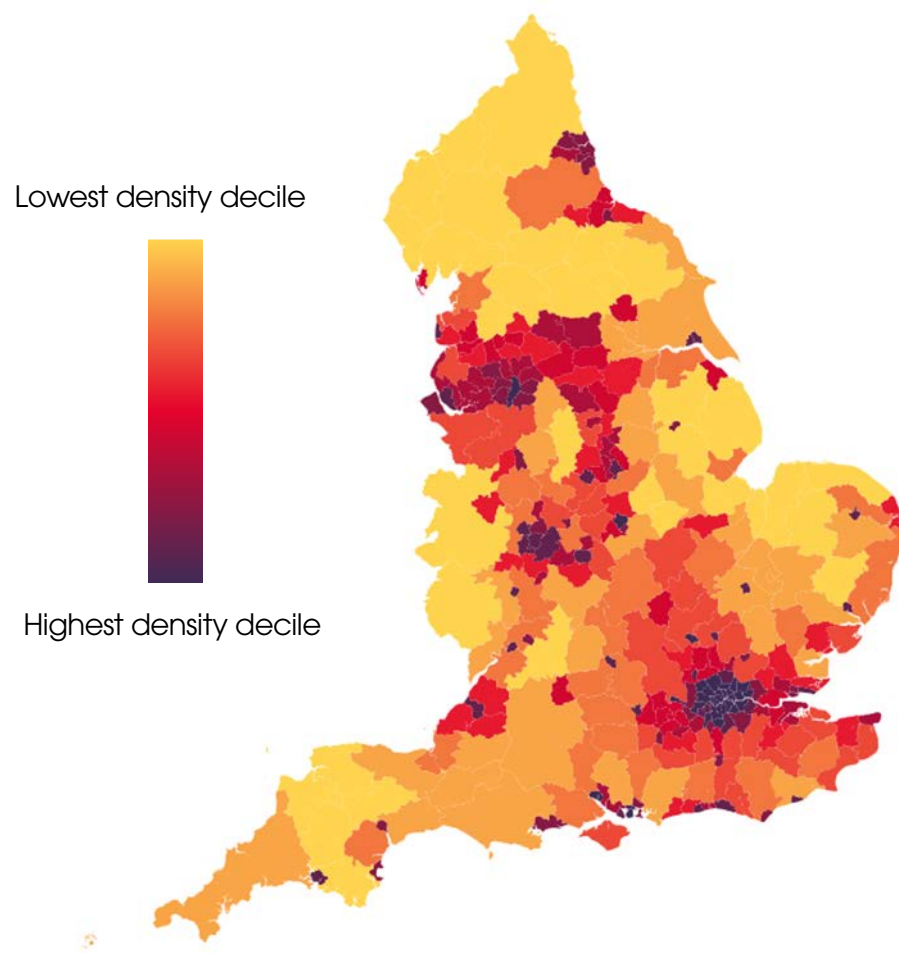Local authorities, England, 2020, per cent

■ Real incomes prioritisation ■ Levelling Up Fund

Appendix

Classifying rural areas

Population density deciles
Local authorities, England, mid-2019

Lowest density decile

Highest density decile

Rural-Urban Classifications (RUCLAD)
Local authorities, England, 2011*

RUCLAD 1

RUCLAD 6
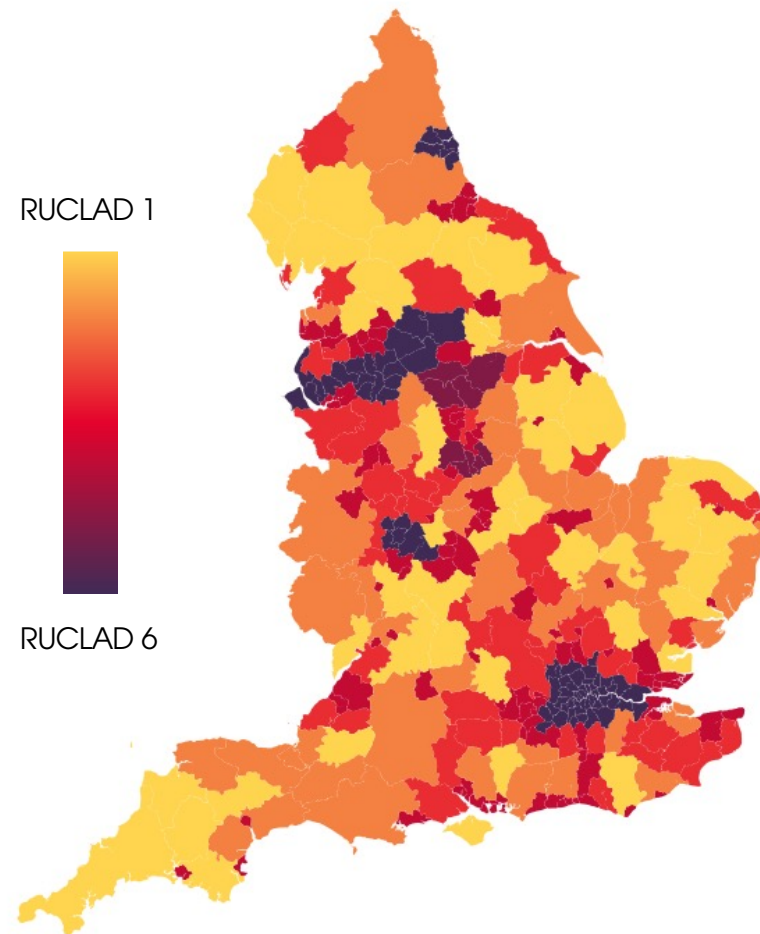
*Note: updated to correspond to local authorities as of April 2021. Source: Office for National Statistics (left); Department for Environment, Food & Rural Affairs (right)

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