RURAL LENS REVIEW

Rural England Prosperity Fund

Prospectus and funding formula

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RURAL SERVICES NETWORK

At a glance

Rural Services Network's thoughts on the **Rural England Prosperity Fund Prospectus and Funding Formula**

The RSN welcomes the announcement of the long-awaited Rural England Prosperity Fund. (REPF), and we are pleased to see that the Government has stressed that the REPF does not mean that the UK Shared Prosperity Fund is an urban fund; that too should reach rural areas. However, we do have some concerns:

- The fact that the scheme delivers capital funding only is one of the major concerns. It demonstrates a fundamental misunderstanding of what is needed to support activity in rural areas and is a backward step. The lack of revenue funding ignores the issues of the capacity of rural councils regarding to the development and delivery of proposals.

- Capacity (or rather lack of it) is also a key issue for the business and community/voluntary organisations concerned, both in their ability to develop new products/services and support existing activities without some additional revenue support.

- A key difference to LEADER funding is that each LEADER programme had a Management & Administration budget, which could be up to 18% of the overall programme budget. It would have been very helpful if a provision such as that were included within the REPF.

- The allocation of funds such as the Rural England Prosperity Fund must better reflect the overall government funding (including the annual Local Government Funding Settlement) and therefore capacity issues of the different types of Councils benefiting from the schemes. In the Final Local Government Finance Settlement for 2023/24 Predominantly Urban areas get 59% more in Settlement Funding Assessment than do their Predominantly Rural counterparts – with the funding gap having widened compared to 2022/23.

- In our view the timescale did not allow sufficient time for meaningful consultation with the rural communities within the local authority areas on the specifics of this rural fund.

- It is essential that there is a full evaluation in due course of the whole of the initiative and not just on the delivery of outcomes. Such an evaluation should reflect on capital only aspect of the Fund.

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INTRODUCTION

- The Rural England Prosperity Fund Prospectus which is **for April 2023 to March 2025** builds on and is complimentary to the UK Shared Prosperity Fund. (UKSPF) See the Appendix for comments from the RSN's Rural Lens Review of the Shared Prosperity Fund Prospectus. The Rural England Prosperity Fund (REPF or Rural Fund) is a 'top up' to the UKSPF.

- The REPF succeeds EU funding from LEADER and the Growth Programme which were part of the Rural Development Programme for England. LEADER was worth £138 million spread across 2015 to 2020. Therefore the £110 million for 2023 to 2025 for the REPF is very much to be welcomed. The Defra announcement makes clear **REPF is a ring-fenced rural levelling up fund** and that it should be treated as additional to anything UKSPF spends in rural areas. **Allocations have been determined at the level of Unitary, District and Mayoral Combined Authority level – with the proviso that the funds are used to fund projects in rural areas.**

- Authorities will have submitted a UKSPF Investment Plan to the Government. Specific additional information was required to be submitted by 30th November 2022 as an Addendum to the UKSPF plans. In the Prospectus the Government anticipated that approvals of the Rural Fund proposals will be made in January 2023 – we now understand that they will not be known until early to mid-March 2023 which is disappointing.

- The Rural Fund is stated to support the aims of the Government's Levelling Up White Paper and Future Farming Programme with the aim to "improve productivity and strengthen the rural economy and rural communities". The Fund is intended to "support activities that specifically address the particular challenges rural areas face including (1) lower productivity (2) poor connectivity and (3) poorer access to key services".

- The REPF objectives sit within the UKSPF investment priorities for (1) Supporting Local Business and (2) Community and Place. They also relate to two of the Levelling Up White Paper Missions of (1) Mission 1 – Living Standards and (2) Mission 9 – Pride in place.

- The Rural Fund provides **capital funding** to:

  - support new and existing rural businesses to develop new products and facilities that will be of wider benefit to the local economy. This includes farm businesses looking to diversify income streams.

- support new and improved community infrastructure, providing essential community services and assets for local people and businesses to benefit the local economy.

The Prospectus stresses that this funding should not replace funding plans for rural areas under the UKSPF. It is a top-up to help address the extra needs and challenges facing rural areas.

It is possible to use revenue funding from the UKSPF allocations to support capital from the Rural Fund, as long as that is consistent with each council's UKSPF investment plans.

Rural Fund projects can be part of a wider UKSPF intervention. They can provide extra funding where the objectives are the same to add value.

ASSESSMENT OF THE RURAL ENGLAND PROSPERITY FUND PROSPECTUS

In our view the timescale did not allow sufficient time for meaningful consultation with the rural communities within the local authority areas on the specifics of this rural fund.

Projects must be in a rural area. For Rural Fund purposes, rural areas are:

- **towns, villages, and hamlets with populations below 10,000** and the wider countryside
- **market or 'hub towns' with populations of up to 30,000 that serve their surrounding rural areas** as centres of employment and in providing services.
- Interactive maps showing the rural areas for the purposes of the fund have been published on https://magic.defra.gov.uk/

Helpfully, to help identify the types of projects the Government expect to see funded, the Prospectus provides a list of interventions, objectives, outputs and outcomes. Most are the same as UKSPF interventions for:

- Supporting Local Business
- Communities and Place

There are two extra interventions providing funding for:

- small scale investment in micro and small enterprises in rural areas
- rural circular economy projects

The list of interventions also provides example projects which could be funded, such as grants for:

- food processing equipment to scale up from domestic to commercial kitchens (non-farming businesses only)
- converting farm buildings to other business uses
- rural tourism such as investments in visitor accommodation and farm diversification for event venues

Investments should demonstrate value for money and additionality. The government will provide materials to help support assessment of projects and to share best practice.

Councils should also consider how investments contribute to net zero and nature recovery objectives. Consideration must be given to a project's impact on natural assets and nature.

Projects that deliver the greatest economic, environmental, and social benefits. Should be prioritised.

Helpfully, the Prospectus sets out some Case Studies.

Any organisation with legal status can get funding to deliver a Rural Fund intervention. This may include:

- local authorities
- public sector organisations
- higher and further education institutions
- private sector companies
- voluntary organisations
- registered charities
- arms-length bodies of government

REVIEW OF THE FUNDING ALLOCATION METHODOLOGY & FORMULA

The allocations reflect the strategic objectives of the Fund, to support:

- **business development**
- **farm business diversification**
- **community infrastructure**

It is important that we bear in mind the strategic objectives of the Fund in reviewing the funding methodology/formula.

Defra does not prescribe how much a local authority should spend on each of the objectives.

The methodology states "Before adjustments, Defra has apportioned the Rural Fund on the following basis.

55% of the Fund is allocated to take account of rural populations:

- 40% pro-rata to rural population
- an extra 10% pro-rata to the 10% most deprived rural areas to reflect their additional needs
- an extra 5% **pro-rata to sparsely populated areas to reflect their additional costs and needs**

35% of the Fund is allocated to take account of businesses and productivity:

- 25% pro-rata to the number of registered rural businesses-weighted by the productivity gap so that the least productive areas benefit more
- an extra 10% pro-rata to the number of registered rural micro businesses (businesses employing less than 10 people)

10% of the Fund is allocated to support farm business diversification. There are no suitable data on the potential for farm business diversification, so a proxy measure is pro-rata to Farm Basic Payments. This reflects the importance and scale of farm businesses.

Defra has adjusted the notional allocations to achieve a viable programme at local authority level. This provides good coverage of the rural population in England."

Of the local authority districts and unitary authorities in England, those that are eligible are:

- all 83 predominantly rural authorities
- 40 of the 50 urban with significant rural authorities
- 13 of the 175 predominantly urban authorities

This means 89% of the rural population in England are in eligible authorities.

Defra has applied a **minimum floor level of funding of £400,000** for each eligible authority. This ensures authorities have enough funding to run a viable programme.

There is not enough funding to allocate £400,000 to every authority. Defra has considered the size of the rural population, to prioritise rural areas. **This is clearly beneficial to predominantly rural areas. The adjustments for cut-offs and minimum funding affect the final outcome, but before the adjustments the 5% initially allocated in respect of rural populations in sparsely populated areas amounted to an extra £5.5million.**

Authorities are ineligible if their share of the Fund was too low to justify the uplift to the minimum floor level. This applies to authorities with smaller rural populations and fewer rural businesses.

The eligibility of authorities has been determined iteratively, with the fund redistributed as authorities furthest away from a cut-off for the uplift are removed one by one, thus increasing the allocation for remaining authorities until no remaining 'eligible' authority is below the cuts-off for an uplift to the minimum floor funding.

The uplifts to minimum floor funding are then made to those authorities remaining below the floor and the residual fund is redistributed pro-rata for those authorities above the minimum floor funding. This, of course, then means that the link to the initial allocation 'formula' is fractured.

Thus, for each eligible authority the Initial Percentage of REPF = Rural Pop Weight x Share + Sparse Pop Weight x Share + Deprived Pop Weight x Share + Micro Businesses Weight x Share + Business x Productivity Weight x Share + Farming Weight x Share. Then the Initial Allocation = Initial Percentage of REPF x Total REPF

We welcome the fact that there is a weighting for sparsity of population as a supplement to the other components of the methodology. No explanation is given as to why just 5% has been used to provide increased funding "to reflect the additional costs and needs". We do, however, accept that given the objectives of the fund and that it is a capital fund, arguments about additional costs and needs in sparsely populated areas are less obvious than for revenue funding for service provision.

Reviewing the final allocations on a per head of rural population basis for the authorities receiving an allocation shows:

- For Urban Authorities £12.51 per head [total allocation £461,678]
- For Urban with Significant Rural Authorities £11.79 per head [total allocation £23.649 million]
- For Largely and Mainly Rural Authorities £13.83 per head [total allocation £80.111 million]

It can be seen that on the basis set out above the allocations under the formula benefit Largely and Mainly Rural authorities by some 10.55% compared to the average for the 13 urban authorities with a final allocation.

The allocations of funds such as the Rural England Prosperity Fund must better reflect the overall government funding, (including the annual Local Government Funding Settlement) and therefore capacity issues, of the different types of Councils benefiting from the schemes. In the Final Local Government Finance Settlement for 2023/24 Predominantly Urban areas get 59% more in Settlement Funding Assessment than do their Predominantly Rural counterparts – with the funding gap having widened compared to 2022/23.

AREAS WHICH SHOULD BE COVERED IN THE EVALUATION OF THE FUND

It is important that the proposed review should look not just from what Local Authorities s have been able to/chosen to do with it, but also the entire programme including the constraints within which DEFRA has had to work.

In our view issues that need looking at and learning from in the eventual evaluation include:

- Timescales and their impact, all the way through from original announcement of the UKSPF, through final announcement of the ERPF, period of Local Authorities to consult on and then make submissions, to approval and delivery timetables.
- Is the use of the Index of Multiple Deprivation relevant given the concerns across rural areas that it fails to identify properly rural deprivation.
- Is the proving just 5% pro-rata to sparsely populated areas enough to reflect their additional costs and needs.
- Any evaluation has got to help DEFRA / Government learn about what characteristics a funding scheme needs to have it if it is to make a difference to rural communities / the rural economy. This must include the issue of both capital and revenue funding.
- LEADER suffered from a difficult, but well understood, conundrum. It had to find a balance between fundable, viable projects and displacement of private investment i.e. the project must be good enough to be worth funding, but not so good that it didn't need public money. Has ERPF overcome this in the projects it ends up funding is a question which should be asked? Performance against this objective has to be measured, at least in part, in comparison to what can be achieved in rural areas by funding social enterprise, community or sector wide commercial co-operative/collaborative projects rather than grants to individual businesses.

APPENDIX - INITIAL ASSESSMENT OF THE UKSPF PROSPECTUS

Because the Rural England Prosperity Fund is integrated with the UKSPF we feel it appropriate in this Rural Lens Review of that Prospectus to repeat our Rural Lens Review Assessment of the UKSPF Prospectus of May 2022. We said:

"In advance of detail coming out on the UK Shared Prosperity Fund the RSN engaged Economists - Pragmatix Advisory to review and comment upon issues from a rural perspective. The report was titled "Towards the UK Shared Prosperity Fund: Developing a prioritisation framework to support the levelling up of rural communities".

We also engaged Pragmatix to produce a summary report entitled "Cultivating Rural Growth", highlighting some of the key themes and recommendations across the three reports we have commissioned from them, as set out below:

- Towards a Greener Green Book process – Delivering the promise of proportionate public funding for rural communities
- Towards the UK Shared Prosperity Fund referred to above; and
- Rural Recovery and Revitalisation - The economic and fiscal case for investing in rural affordable housing to drive post pandemic recovery.

The reports clearly demonstrate that:

- 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 as part of a digitised, decarbonised, and decentralised modern economy.

- rural areas face the triple whammy of higher costs, lower funding and greater need but lack of economies of scale mean delivery of rural services will likely cost more than in urban locations.

- despite this, public sector spending per head is higher in regions with a greater share of the population living in urban areas.

- This urban-centric bias has a particularly acute impact on the rural regions with no major cities, that make up Britain's Leading Edge.

Considering Productivity, Standards of Living, Housing and Funding, the reports show:

Productivity	Standards of Living
• Industry mix in rural areas is constrained by limits of geography and scale • Rural jobs are less productive, even in key sectors like manufacturing and tourism	• Lower wages and higher living costs squeeze rural living standards. • Official statistics fail to capture rural poverty and low earners
Housing	**Funding**
• Beyond London, problems of affordability are most acute in rural areas, with key workers priced out of their communities • Building new affordable rural homes is essential meet growing demand – and will help to boost public finances	• Rural areas are in receipt of proportionally less government funding. • Appraisal mechanisms and priority frameworks favour urban locations. • Focusing on real incomes should determine areas in need of ‘levelling up’

We also expressed significant concerns about the capacity of many rural councils and their local partners to fully engage in competition for funds and the weightings given in appraisal processes to the outcomes which can be achieved in rural compared to urban areas given the extra costs involved in the rural context.

The funding formula is said to be ‘skewed to need’. The measures in the Levelling-Up White Paper are very urban centric.

Capacity remains an issue of real concern across rural authorities and while it is welcome that there will be an allocation to manage the Fund, including assessing and approving project applications, processing payments and day-to-day monitoring that still requires people who understand each place’s unique local context.

Reference is made to the Fund being able to complement other funding streams - but many of those have so far, by-passed rural communities.

The requirement for Government to have to approve the Investment Plans smacks of a dead hand of centralisation.

Realistic and workable timescales for the required Investment Plans is essential.

Fewer outcomes can be achieved in rural areas for a given amount of funding when compared to urban. That must be acknowledged and reflected in funding from the outset.

Given the large geographical size of rural District and Unitary authorities they cover very many separate communities separated by distance. Each has unique challenges and opportunities. This presents many challenges in programme design and delivery.